

## L'azurde Company for Jewelry

A Joint Stock Company established in accordance with the Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006G) and with commercial registration No. 1010221531 dated 26/6/1427H (corresponding to 22/7/2006G)

Offering of 12,900,000 ordinary Shares representing 30% of L'azurde Company for Jewelry share capital through an Initial Public Offering at an Offer Price of SAR 37 per Share  
**Offering Period: nine (9) days starting from 29/08/1437H (corresponding to 05/06/2016G) to 08/09/1437H (corresponding to 13/06/2016G).**

L'azurde Company for Jewelry (hereinafter referred to as the "Company") was originally established on 18/7/1412H (corresponding to 23/1/1992G) as a sole establishment wholly owned by Mr Abdulaziz Saleh Al Othaim under the name of the Saudi Gold & Pearl Factory, with a capital of eighteen million five hundred thousand Saudi Riyals (SAR 18,500,000) and registered in the city of Riyadh under the Commercial Registration No. 1010091134, dated 18/7/1412H (corresponding to 23/1/1992G). On 4/2/1415H (corresponding to 13/7/1994G), "L'azurde" trademark was first registered; and on 18/8/1419H (corresponding to 19/12/1997G), the name of the establishment was changed to L'azurde Gold & Jewellery Factory. On 4/3/1427H (corresponding to 2/4/2006G), the establishment of L'azurde Gold & Jewellery Factory and a number of its branches were changed to a Saudi closed joint stock company under the name of L'azurde Company for Jewelry registered in the Kingdom of Saudi Arabia (the "Kingdom") by virtue of the Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006G) on the establishment of the company and the Commercial Registration No. 1010221531 dated 26/6/1427H (corresponding to 22/7/2006G) issued in Riyadh, with a share capital of two hundred million Saudi Riyals (SAR 200,000,000) divided into four million (4,000,000) ordinary shares with a nominal value of fifty Saudi Riyals (SAR 50) per share through the capitalisation of forty seven million five hundred thousand Saudi Riyals (SAR 47,500,000) representing total transferred capital of the establishment branches as well as capitalisation of SAR 134,000,000 (one hundred thirty four million) from the retained earnings of the establishment. Under the Extraordinary General Assembly Resolution dated 10/09/1428H (corresponding to 22/09/2007G), the Company's capital was increased to three hundred million Saudi Riyals (SAR 300,000,000) divided into thirty million (30,000,000) ordinary shares with a nominal value of ten Saudi Riyals (SAR 10) per share, through a capitalisation of one hundred million Saudi Riyals (SAR 100,000,000) from the Company's retained earnings. On 4/7/1436H (corresponding to 23/4/2015G), the Company's capital was increased to four hundred thirty million Saudi Riyals (SAR 430,000,000) by issuing thirteen million (13,000,000) ordinary shares at a par value of ten Saudi Riyals (SAR 10) per share (by granting one (1) bonus Share for each two point three (2.3) Shares owned by the registered Shareholders on the day of the Assembly Meeting). The increase was covered by a capitalisation of: (i) fifty two million five hundred nine thousand one hundred twenty one Saudi Riyals (SAR 52,509,121) from the Company's statutory reserve; and (ii) seventy seven million four hundred ninety thousand eight hundred seventy nine Saudi Riyals (SAR 77,490,879) from the Company's retained earnings. The current share capital of the Company is four hundred thirty million Saudi Riyals (SAR 430,000,000) consisting of forty three million (43,000,000) ordinary shares, with a fully paid nominal value of ten Saudi Riyals (SAR 10) per share (the "Shares").

The initial public offering of the Company's shares (the "Offering") will be for twelve million nine hundred thousand (12,900,000) ordinary Shares (collectively, the "Offer Shares" and each an "Offer Share"). The Offering price will be thirty-seven Saudi Riyals (SAR 37) per Offer Share (the "Offer Price"), which represents a fully paid nominal value of ten Saudi Riyals (SAR 10) per Offer Share. The Offer Shares represent thirty per cent. (30%) of the issued share capital of the Company. The Offering shall be restricted to the following two groups of investors:

Tranche (A): institutional investors comprising certain institutions and corporations, including investment funds (collectively, the "Institutional Investors" and each an "Institutional Investor") (for further details, please see Section 1 ("Definitions and Abbreviations")). The number of Offer Shares to be allocated to Institutional Investors is twelve million nine hundred thousand (12,900,000) Offer Shares, representing one hundred per cent (100%) of the Offer Shares. However, the Bookrunner (as defined below) has the right, subject to the approval of the Capital Market Authority (the "CMA"), to reduce the number of Offer Shares allocated to Institutional Investors to nine million thirty thousand (9,030,000) Shares, representing seventy per cent (70%) of the Offer Shares, if the Individual Investors (as defined below) subscribe to all the Offer Shares allocated to them. Ninety per cent (90%) of the Offer Shares allocated to this tranche will be reserved for investment funds, adjustable in the event of insufficient demand by other Institutional Investors for the remaining ten per cent. (10%) or if the investment funds do not subscribe to the full ninety per cent. (90%) allocated to them; and

Tranche (B): individual investors comprising Saudi Arabian nationals, including any Saudi female divorcee or widow from a marriage to a non Saudi who can subscribe for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor Saudi Arabian children (collectively, the "Individual Investors" and each an "Individual Investor"). Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. A maximum of three million eight hundred seventy thousand (3,870,000) Shares representing thirty per cent. (30%) of the Offer Shares shall be allocated to Individual Investors. In the event that the Individual Investors do not subscribe in full to the Offer Shares allocated to them, the Lead Manager may reduce the number of Offer Shares allocated to Individual Investors in proportion to the number of Offer Shares subscribed by them, subject to the approval of the CMA.

The Offer Shares are being sold by the shareholders whose names appear on page (xi) (collectively, the "Selling Shareholders") and who collectively own one hundred per cent (100%) of the Shares before the Offering. Upon completion of the Offering, L'azurde Holding Company ("L'azurde Holding") will own seventy per cent. (70%) of the Shares and will consequently retain a controlling interest in the Company. The proceeds from the Offering, after deduction of offering expenses ("Net Proceeds from the Offering"), will be distributed to the Selling Shareholders pro rata to the number of the Offer Shares sold in the Offering by each one of them. The Company will not receive any part of the net proceeds from the Offering (for further details, please see Section 8 ("Use of Proceeds")). The Offering is fully underwritten by the Underwriter (for further details, please see Section 13 ("Underwriting")). L'azurde Holding will be subject to a restriction period during which it will be prohibited from selling its Shares for a period of nine (9) months as at the date trading starts on the Saudi Stock Exchange ("Tadawul" or the "Exchange") ("Lock up Period") as indicated on page (vi). After the Lock up Period has elapsed, L'azurde Holding may only dispose of its Shares after obtaining the approval of the CMA.

The Offering will commence on Sunday 29/08/1437H (corresponding to 05/06/2016G) and will remain open for a period of nine (9) days up to and including the closing day on 08/09/1437H (corresponding to 13/06/2016G) (the "Offering Period"). Subscription to the Offer Shares can be made through any of the branches of selling agents (the "Selling Agents") listed on page (viii) during the Offering Period (for further details, please see Section 17 ("Subscription Terms and Conditions")). Institutional Investors can subscribe to the Offer Shares through the Bookrunner defined in Section 1 ("Definitions and Abbreviations") during the book running process taking place prior to the Offering to individual investors.

Each Individual Investor who subscribes to the Offer Shares must apply for a minimum of ten (10) Offer Shares. The maximum number of Offer Shares that can be subscribed to is two hundred fifty thousand Shares (250,000). The minimum number of allocated shares will be ten (10) Offer Shares per Individual Investor, and the balance of the Offer Shares, if any, will be allocated on a pro rata basis based on the number of Offer Shares applied for by each Individual Investor. In the event that the number of Individual Investors exceeds three hundred eighty-seven thousand (387,000), the Company will not guarantee the minimum allocation of Offer Shares per Individual Investor, and the Offer Shares will be allocated equally between all Individual Investors. Excess subscription monies, if any, will be refunded to the Individual Investors without any charge or withholding by the relevant Selling Agent. Notification of the final allotment and refund of subscription monies, if any, will be made at the latest by 15/09/1437H (corresponding to 20/06/2016G) (for further details, please see "Key Dates and Subscription Procedures" on page (xv) and Section 17 ("Subscription Terms and Conditions")).

The Company has one class of Shares. Each Share entitles its holder to one vote, and each shareholder (a "Shareholder") with at least twenty (20) Shares has the right to attend and vote at general assembly meetings of the Company (the "General Assembly"). No Shareholder benefits from any preferential voting rights. The Offer Shares will entitle holders to receive dividends declared and paid by the Company as at the date of this prospectus ("Prospectus") and for subsequent fiscal years (for more information, please see Section 6 ("Management's Discussion and Analysis of Financial Position and Results of Operations") and Section 7 ("Dividend Distribution Policy")).

Prior to the Offering, there has been no public market for the Shares in the Kingdom or elsewhere. The Company has submitted an application to the CMA for the registration and admission to listing of the Shares on the Exchange. All relevant regulatory and corporate approvals required to conduct the Offering have been granted, including approvals pertaining to the publication of this Prospectus and all supporting documents have been submitted to the CMA. It is expected that trading in the Shares will commence on the Exchange shortly after the final allocation of the Offer Shares and satisfaction of necessary conditions and procedures (for further details, please see "Key Dates and Subscription Procedures" on page (xv)). Saudi nationals, non Saudi nationals holding valid residency permits in the Kingdom, and companies, banks, and investment funds established in the Kingdom or in countries of the Cooperation Council for the Arab States of the Gulf (the "GCC"), as well as GCC nationals will be permitted to trade in the Shares after their trading starts on the Exchange. Moreover, Qualified Foreign Investors and Approved QFI Clients will be permitted to trade in the Shares in accordance with Rules for Qualified Foreign Financial Institutions Investment in Listed Shares (all as defined below). Furthermore, non Saudi nationals who are not residents in the Kingdom and institutions incorporated outside the Kingdom (collectively, the "Foreign Investors") will be permitted to acquire an economic interest in the Shares by entering into a swap agreement with a person authorised by the CMA to acquire, hold and trade in shares on the Exchange on behalf of a Foreign Investor (the "Authorised Person"). Under such swap agreements, the Authorised Person will be the registered legal owner of such Shares.

Investment in Offer Shares involves certain risks and uncertainties. For a discussion of certain factors to be considered in connection with an investment in the Offer Shares, please see "Important Notice" on page (ii) and Section 2 ("Risk Factors").

Financial Advisor, Lead Manager,  
Bookrunner and Underwriter



Selling Agents



This Prospectus includes information given in compliance with the Listing Rules (as defined below) of the CMA. The Directors, whose names appear on page (v) collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The CMA and the Exchange do not take any responsibility for the contents of this Prospectus, do not make any representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

This Prospectus is an unofficial English translation of the official Arabic Prospectus and is provided for information purposes only. The Arabic Prospectus published on the CMA's website ([www.cma.org.sa](http://www.cma.org.sa)) remains the only official, legally binding version and shall prevail in the event of any conflict between the two language versions.

This Prospectus is dated 02/08/1437H (corresponding to 09/05/2016G).

 L'AZURDE

## IMPORTANT NOTICE

This Prospectus contains detailed information relating to the Company and the Offer Shares. When submitting an application for the Offer Shares investors will be treated as applying solely on the basis of the information contained in this Prospectus, copies of which are available for collection from the Company, the Lead Manager, the Selling Agents or by visiting the websites of the Company ([www.lazurde.com](http://www.lazurde.com)), the CMA ([www.cma.org.sa](http://www.cma.org.sa)) or the Financial Advisor ([www.sfc.sa](http://www.sfc.sa)).

In respect to the Offering, Saudi Fransi Capital has been appointed by the Company as the financial advisor (the "Financial Advisor"), the lead manager (the "Lead Manager"), the underwriter (the "Underwriter") and bookrunner (the "Bookrunner").

This Prospectus includes information that has been presented in compliance with the requirements for the registration and admission to listing of the Shares on the Exchange in accordance with the Listing Rules issued by the CMA. The Directors (as defined below), whose names appear on page (v), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus, and they affirm that according to their knowledge and belief, and after undertaking all possible reasonable enquiries, there are no other facts or omissions from this Prospectus that would make any statement contained therein misleading.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, a substantial portion of the information in this Prospectus relevant to the markets and industry in which the Company operates is derived from external sources. While neither the Company, the Financial Advisor nor any of the Company's other advisors, whose names appear starting on page (vii) of this Prospectus (together with the Financial Advisor, the "Advisors"), have any reason to believe that any of the market and industry information is materially inaccurate, neither the Company nor any of the Advisors has independently verified such information, and no representation or assurance is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial condition of the Company and the value of the Offer Shares may be adversely affected by future developments, such as inflation, interest rates, taxation or other economic, political and any other factors, over which the Company has no control (for further details, please see Section 2 ("Risk Factors")). Neither the delivery of this Prospectus nor any oral or written information in relation to the Offer Shares is intended to be, or should be construed as or relied upon in any way, as a promise, affirmation or representation as to future earnings, results or events.

References made to the Companies' Regulations, in this Prospectus will reflect the Companies' Regulations issued under Royal Decree No. (M/6) dated 22/03/1385H (corresponding to 21/07/1965G).

This Prospectus is not to be regarded as a recommendation on the part of the Company, the Directors, the Selling Shareholders, the Selling Agents, or the Advisors to participate in the Offering. Moreover, information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, financial situation or particular investment needs of the persons who intend to invest in the Offer Shares. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice from a CMA licenced financial advisor in relation to the Offering and must rely on its own examination of the Company and the appropriateness of both the investment opportunity and the information herein with regard to the recipient's individual objectives, financial situation and needs, including the merits and risks involved in investing in the Offer Shares. An investment in the Offer Shares may be appropriate for some investors but not others, and the prospective investors should not rely on another party's decision to invest or not to invest as a basis for their own examination of the investment opportunity and such investor's individual circumstances.

The Offering is directed at, and may be accepted only by:

**Tranche (A):** Institutional Investors comprising certain institutions and corporations, including investment funds (for further details, please see Section 1 ("Definitions and Abbreviations")); and

**Tranche (B):** Individual Investors comprising Saudi Arabian nationals, including any Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor Saudi Arabian children. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

The distribution of this Prospectus and the sale of the Offer Shares to any other person or in any country other than the Kingdom are expressly prohibited. All recipients of this Prospectus must inform themselves of any legal or regulatory restrictions relevant to this Offering and the sale of the Offer Shares and to observe all such restrictions.

## **MARKET AND INDUSTRY DATA**

The information in Section 3 ("Market Overview") is derived from the jewellery market study report prepared by Roland Berger Strategy Consultants Middle East W.L.L. (the "Market Consultant") exclusively for the Company and dated 15 February 2016G. The Market Consultant does not, nor do any of its subsidiaries, shareholders, directors, or their relatives own any Shares or any interest of any kind in the Company or its subsidiaries. As at the date of this Prospectus, the Market Consultant has given and not withdrawn its written consent for the use of its name, the information, and market research supplied by it to the Company in the manner and format set out in this Prospectus.

The Market Consultant provides advisory services to major international industry companies, as well as public institutions. The Market Consultant operates in several fields and sectors and is located in Manama, Kingdom of Bahrain. The parent company of the Market Consultant, Roland Berger Strategy Consultants GmbH, was established in 1967G and is headquartered in Munich, Germany. Roland Berger Strategy Consultants GmbH currently employs, as a group, more than 2,000 staff members.

The Board of Directors believes that the information and data from other sources contained in this Prospectus, including that provided by Roland Berger, is reliable. However, this information and data has not been independently verified by the Company, the Directors, the Advisors, nor the Selling Shareholders, and thus none of them bears any liability for the accuracy or completeness of said information.

## **FINANCIAL AND STATISTICAL INFORMATION**

The audited consolidated financial statements for the financial years ended 31 December 2013G, 2014G and 2015G, and the accompanying notes thereto, have been prepared in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA") and have been audited by Ernst & Young & Co. - Public Accountants ("Auditors"). Such statements are contained in Section 19 ("Consolidated Financial Statements and Auditor's Report"). The Company publishes its financial statements in Saudi Arabian Riyals.

The financial and statistical information contained in this Prospectus is subject to rounding. Accordingly, where numbers have been rounded up or down, there may be minor differences between the figures set out in this Prospectus and the audited financial statements. In cases where the amounts included in this Prospectus were converted from a foreign currency into Saudi Riyal, the exchange rate of Saudi Riyal against the concerned currency was used as of 31 January 2016G.

## FORECASTS AND FORWARD-LOOKING STATEMENTS

Forecasts set forth in this Prospectus have been prepared on the basis of assumptions based on the Company's information according to its market experience, as well as on publicly available market information. Future operating conditions may differ from the assumptions used and consequently no affirmation, representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute, or may be deemed to constitute, "forward-looking statements". Such statements can generally be identified by their use of forward-looking words such as "plans", "estimates", "believes", "expects", "anticipates", "may", "will", "should", "expected", "would be" or the negative thereof or other variations of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events but are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (for further details, please see Section 2 ("Risk Factors")). Should any of these risks or uncertainties materialise or any underlying assumptions prove to be incorrect or inaccurate, the Company's actual results may vary materially from those described in this Prospectus as anticipated, believed, estimated, planned or expected.

Subject to the requirements of the Listing Rules, the Company must submit a supplementary prospectus to the CMA if, at any time after this Prospectus has been approved by the CMA and before admission of the Offer Shares to listing, the Company becomes aware that: (i) there has been a significant change in any material information contained in this Prospectus or any document required by the Listing Rules; or (ii) the occurrence of additional significant matters that have become known which would have been required to be included in this Prospectus. Except in the aforementioned circumstances, the Company does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of the aforementioned and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

## DEFINITIONS AND ABBREVIATIONS

For an explanation of certain defined terms and abbreviations used in this Prospectus, please see Section 1 ("Definitions and Abbreviations").

## CORPORATE DIRECTORY

### Company's Board of Directors

**Table S.1: Company's Board of Directors**

| Name                               | Position | Nationality | Status        | Independence    | Direct Share Ownership <sup>1,2</sup> |               | Indirect Share Ownership |               | Date of Appointment <sup>3</sup>           |
|------------------------------------|----------|-------------|---------------|-----------------|---------------------------------------|---------------|--------------------------|---------------|--|
|                                    |          |             |               |                 | Pre-Offering                          | Post-Offering | Pre-Offering             | Post-Offering |  |
| Mohammed Ebrahim Juma Al-Shroogi   | Chairman | Bahraini    | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 2/7/1434H (corresponding to 12/5/2013G)    |
| James Leonard Tanner               | Director | British     | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 28/3/1433H (corresponding to 20/2/2012G)   |
| Brian Norman Dickie                | Director | Irish       | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 2/1/1437H (corresponding to 15/10/2015G)   |
| Abdullah Abdulaziz Saleh Al Othaim | Director | Saudi       | Non-executive | Non-independent | 0.019%                                | 0.0023%       | N/A                      | N/A           | 29/10/1434H (corresponding to 5/9/2013G)   |
| Wassim Mohammad Assim Al Khatib    | Director | Saudi       | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 2/1/1437H (corresponding to 15/10/2015G)   |
| Hani Ibrahim Ahmed Obaid           | Director | Saudi       | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 14/6/1434H (corresponding to 24/4/2013G)   |
| Abdul Kareem Assad Abu Alhasr      | Director | Saudi       | Non-executive | Independent     | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 21/05/1437H (corresponding to 01/03/2016G) |
| Amin Mohamed Akef Al-Maghrabi      | Director | Saudi       | Non-executive | Independent     | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 21/05/1437H (corresponding to 01/03/2016G) |
| Vacant <sup>4</sup>                | Director | -           | Non-executive | Independent     | -                                     | -             | N/A                      | N/A           | -  |

Source: The Company


1- By virtue of the Company's By-Laws, each Director shall own Shares in the value of at least SAR 10,000 ("Qualification Shares") deposited with an authorised local bank. After completion of the listing of the shares on the Saudi Stock Exchange, such Shares will be deposited with an Authorised Person.

2- The shareholding percentages are rounded.

3- Dates listed in this table are the dates of appointment in the current positions in the Board of Directors. Their respective biographies in Section 5.1.4 ("Biographies of the Members of the Board of Directors and of the Secretary of the Board of Directors") describe the dates of their appointment, whether in the Board of Directors or in any other position, before these positions. Directors were appointed by means of accumulative vote in the Extraordinary General Assembly dated 2/1/1437H (corresponding to 15/10/2015G).

4- The Company shall appoint an independent director not later than the first Ordinary General Assembly after the Offering. Pursuant to the Company's By-Laws, the Directors that will be appointed shall own Qualification Shares from the listed shares on the Saudi Stock Exchange.

## COMPANY'S REGISTERED ADDRESS, REPRESENTATIVES AND BOARD OF DIRECTORS' SECRETARY

| Address  |  |  |
|--|--|--|
| <b>L'azurde Company for Jewelry</b><br>Second Industrial Area<br>St. No. 198, Banks District<br>P.O. Box 41270<br>Riyadh 11521<br>Kingdom of Saudi Arabia<br>Tel:+ 966 (11) 2651119 (Ext. 300)<br>Fax:+ 966 (11) 2656060<br>Website: www.lazurde.com<br>Email: legal.department@lazurde.com                      |    |  |
| Company's Representatives  |  | Board of Directors' Secretary  |
| <b>Hani Ibrahim Ahmed Obaid (Director)</b><br>L'azurde Company for Jewelry<br>Second Industrial Area<br>St. No. 198, Banks District<br>P.O. Box 41270<br>Riyadh 11521<br>Kingdom of Saudi Arabia<br>Tel:+ 966 (11) 2651119<br>Fax:+ 966 (11) 2656060<br>Website: www.lazurde.com<br>Email: hobaid@investcorp.com | <b>Selim Chidiac (Chief Executive Officer)</b><br>L'azurde Company for Jewelry<br>Second Industrial Area<br>St. No. 198, Banks District<br>P.O. Box 41270<br>Riyadh 11521<br>Kingdom of Saudi Arabia<br>Tel:+ 966 (11) 2651119 (extension 102)<br>Fax:+ 966 (11) 2656060<br>Website: www.lazurde.com<br>Email: selim.chidiac@lazurde.com | <b>Ayman Gamil (Chief Financial Officer)</b><br>L'azurde Company for Jewelry<br>Second Industrial Area<br>St. No. 198, Banks District<br>P.O. Box 41270<br>Riyadh 11521<br>Kingdom of Saudi Arabia<br>Tel:+ 966 (11) 2651119 (extension 300)<br>Fax:+ 966 (11) 2656060<br>Website: www.lazurde.com<br>Email: ayman.gamil@lazurde.com |

| STOCK EXCHANGE  |  |
|---|--|
| <b>The Saudi Stock Exchange (Tadawul)</b><br>Abraj Al Tawuniya, North Tower<br>700 King Fahad Road<br>P.O. Box 60612<br>Riyadh 11555<br>Kingdom of Saudi Arabia<br>Tel:+ 966 (11) 218 9999<br>Fax:+ 966 (11) 218 1220<br>Website: www.tadawul.com.sa<br>Email: webinfo@tadawul.com.sa |  |



## ADVISORS

| Financial Advisor, Lead Manager, Bookrunner and Underwriter   |  |
|---|--|
| <b>Saudi Fransi Capital</b><br>King Fahad Road<br>P.O. Box 23454, Riyadh 11426<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 282 6666<br>Fax: +966 (11) 282 6823<br>Website: <a href="http://www.sfc.sa">www.sfc.sa</a><br>Email: <a href="mailto:info@fransicapital.com.sa">info@fransicapital.com.sa</a>   |    |
| Legal Advisor   |  |
| <b>White and Case LLP in Association with The Law Firm of Zeyad Y. Al Salloum and Yazeed A. Al Toaimi.</b><br>The Business Gate<br>Building No. 26 Zone C, Airport Road<br>P.O. Box 99879, Riyadh 11625<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 4045900<br>Fax: +966 (11) 265 2277<br>Website: <a href="http://www.whitecase.com">www.whitecase.com</a><br>Email: <a href="mailto:riyadhcapitalmarketsall@groups.whitecase.com">riyadhcapitalmarketsall@groups.whitecase.com</a> |    |
| Financial Due Diligence and Working Capital Advisor   |  |
| <b>PricewaterhouseCoopers</b><br>King Faisal Foundation Building<br>P.O. Box 8282, Riyadh 11482<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 2110400<br>Fax: +966 (11) 2110250<br>Website: <a href="http://www.pwc.com">www.pwc.com</a><br>Email: <a href="mailto:lama.rmeily@sa.pwc.com">lama.rmeily@sa.pwc.com</a>  |  |
| Market Consultant   |  |
| <b>Roland Berger Strategy Consultants Middle East W.L.L.</b><br>Almoayyed Tower, 12th Floor<br>P.O. Box 18259, Manama<br>Kingdom of Bahrain<br>Tel: +973 (17) 567 995<br>Fax: +973 (17) 567 903<br>Website: <a href="http://www.rolandberger.com">www.rolandberger.com</a><br>Email: <a href="mailto:Office_Bahrain@rolandberger.com">Office_Bahrain@rolandberger.com</a>   |  |
| Auditor   |  |
| <b>Ernst &amp; Young &amp; Co. (Public Accountants)</b><br>Al Faisaliah Office Tower<br>P.O. Box 2732, Riyadh 11461<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 2734740<br>Fax: +966 (11) 2734730<br>Website: <a href="http://www.ey.com">www.ey.com</a><br>Email: <a href="mailto:riyadh@sa.ey.com">riyadh@sa.ey.com</a>  |  |

Note: All the above mentioned Advisors have given and have not withdrawn their written consent, until the date hereof, to the publication of their names, addresses, logos and statements attributed to each of them in the context in which they appear in this Prospectus, and do not themselves, their employees (forming part of the engagement team serving the Company), or any of their employees' spouse or dependents relatives have any shareholding or interest of any kind in the Company or any of its subsidiaries as at the date of this Prospectus which would impair their independence.



## SELLING AGENTS

|   |  |
|---|--|
| <p><b>The National Commercial Bank</b><br/> King Abdulaziz Road<br/> P.O. Box 3555<br/> Jeddah 21481<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (12) 649 3333<br/> Fax: + 966 (12) 643 7426<br/> Website: <a href="http://www.alahli.com.sa">www.alahli.com.sa</a><br/> Email: <a href="mailto:contactus@alahli.com">contactus@alahli.com</a></p>                       |    |
| <p><b>Saudi Hollandi Bank</b><br/> Prince Abdulaziz Bin Musa'ed Bin Jlewy Street<br/> P.O. Box 1467<br/> Riyadh 11431<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (11) 401 0288<br/> Fax: + 966 (11) 403 1104<br/> Website: <a href="http://www.shb.com.sa">www.shb.com.sa</a><br/> E mail: <a href="mailto:csc@saudihollandibank.com">csc@saudihollandibank.com</a></p> |    |
| <p><b>Banque Saudi Fransi</b><br/> Ma'ather Street<br/> P.O. Box 56006<br/> Riyadh 11554<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (11) 404 2222<br/> Fax: + 966 (11) 404 2311<br/> Website: <a href="http://www.alfransi.com.sa">www.alfransi.com.sa</a><br/> Email: <a href="mailto:communications@alfransi.com.sa">communications@alfransi.com.sa</a></p>           |   |
| <p><b>Samba Financial Group</b><br/> King Abdulaziz Road<br/> P.O. Box 833<br/> Riyadh 11421<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (11) 477 4770<br/> Fax: + 966 (11) 479 9402<br/> Website: <a href="http://www.samba.com.sa">www.samba.com.sa</a><br/> E mail: <a href="mailto:customercare@samba.com">customercare@samba.com</a></p>                            |  |
| <p><b>Riyad Bank</b><br/> King Abdulaziz Road<br/> P.O. Box 22622<br/> Riyadh 11614<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (11) 401 3030<br/> Fax: + 966 (11) 404 2618<br/> Website: <a href="http://www.riyadbank.com">www.riyadbank.com</a><br/> Email: <a href="mailto:customercare@riyadbank.com">customercare@riyadbank.com</a></p>                            |  |

## MAIN BANKS OF THE COMPANY

As at the date of this Prospectus, the Company has commercial relations with the following banks:

|  |  |
|--|--|
| <p><b>The National Commercial Bank</b><br/> King Abdulaziz Road<br/> P.O. Box 3555<br/> Jeddah 21481<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (12) 649 3333<br/> Fax: + 966 (12) 643 7426<br/> Website: <a href="http://www.alahli.com.sa">www.alahli.com.sa</a><br/> Email: <a href="mailto:contactus@alahli.com">contactus@alahli.com</a></p>                      |    |
| <p><b>Saudi Hollandi Bank</b><br/> Prince Abdulaziz Bin Musa'ed Bin Jlewy Street<br/> P.O. Box 1467<br/> Riyadh 11431<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (11) 401 0288<br/> Fax: + 966 (11) 403 1104<br/> Website: <a href="http://www.shb.com.sa">www.shb.com.sa</a><br/> Email: <a href="mailto:csc@saudihollandibank.com">csc@saudihollandibank.com</a></p> |    |
| <p><b>Banque Saudi Fransi</b><br/> Ma'ather Street<br/> P.O. Box 56006<br/> Riyadh 11554<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (11) 404 2222<br/> Fax: + 966 (11) 404 2311<br/> Website: <a href="http://www.alfransi.com.sa">www.alfransi.com.sa</a><br/> Email: <a href="mailto:communications@alfransi.com.sa">communications@alfransi.com.sa</a></p>          |   |
| <p><b>Samba Financial Group</b><br/> King Abdulaziz Road<br/> P.O. Box 833<br/> Riyadh 11421<br/> Kingdom of Saudi Arabia<br/> Tel: + 966 (11) 477 4770<br/> Fax: + 966 (11) 479 9402<br/> Website: <a href="http://www.samba.com.sa">www.samba.com.sa</a><br/> Email: <a href="mailto:customercare@samba.com">customercare@samba.com</a></p>                            |  |

## OFFERING SUMMARY

This summary of key information is intended to provide a brief overview of the information contained in this Prospectus. As such, it does not contain all of the information that may be important to prospective investors. Accordingly, this summary must be read as an introduction to this Prospectus, and the prospective investors should read this entire Prospectus in full. Any decision to invest in the Offer Shares by prospective investors should be based on a consideration of this Prospectus as a whole.

In particular, it is important to carefully consider the "Important Notice" on page (ii) and Section 2 ("Risk Factors"), respectively, prior to making any investment decision in the Offer Shares.

|   |  |
|---|--|
| Company Name, Description and Establishment Information | <p>L'azurde Company for Jewelry, a closed joint stock company, established in accordance with the Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006G) and with commercial registration No. 1010221531 dated 26/6/1427H (corresponding to 22/7/2006G). The Company was originally established on 18/7/1412H (corresponding to 23/1/1992G) as a sole establishment wholly owned by Mr Abdulaziz Saleh Al Othaim under the name of the Saudi Gold &amp; Pearl Factory, with a capital of eighteen million five hundred thousand Saudi Riyals (SAR 18,500,000) and registered in the city of Riyadh under the Commercial Registration No. 1010091134, dated 18/7/1412H (corresponding to 23/1/1992G). On 18/8/1419H (corresponding to 19/12/1997G), the name of the establishment was changed to L'azurde Gold &amp; Jewellery Factory. On 4/3/1427H (corresponding to 2/4/2006G), the establishment of L'azurde Gold &amp; Jewellery Factory and a number of its branches were changed to a Saudi closed joint stock company under the name of L'azurde Company for Jewelry by virtue of the Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006G) issued on the establishment of the company and the Commercial Registration No. 1010221531 dated 26/6/1427H (corresponding to 22/7/2006G) issued in Riyadh, with a share capital of two hundred million Saudi Riyals (SAR 200,000,000) divided into four million (4,000,000) ordinary shares with a nominal value of fifty Saudi Riyals (SAR 50) per share through the capitalisation of SAR 47,500,000 (forty seven million five hundred thousand) representing total transferred capital of the establishment branches as well as capitalisation of SAR 134,000,000 (one hundred thirty four million) from the retained earnings of the establishment. Under the Extraordinary General Assembly Resolution dated 10/09/1428H (corresponding to 22/09/2007G), the Company's capital was increased to three hundred million Saudi Riyals (SAR 300,000,000) divided into thirty million (30,000,000) ordinary shares with a nominal value of ten Saudi Riyals (SAR 10) per share. The increase was covered by a capitalisation of one hundred million Saudi Riyals (SAR 100,000,000) from the Company's retained earnings. On 4/7/1436H (corresponding to 23/4/2015G), the Company's capital was increased to four hundred thirty million Saudi Riyals (SAR 430,000,000) by issuing new thirteen million (13,000,000) ordinary shares by granting one (1) bonus Share for each two point three (2.3) Shares owned by the registered Shareholders on the meeting day of the Assembly. This increase was covered through a capitalisation of: (i) fiftytwo million five hundred nine thousand one hundred twentyone Saudi Riyals (SAR 52,509,121) from the Company's statutory reserve; and (ii) seventyseven million four hundred ninety thousand eight hundred seventynine Saudi Riyals (SAR 77,490,879) from the Company's retained earnings. The Company's current Capital is four hundred thirty million Saudi Riyals (SAR 430,000,000) divided into forty three million (43,000,000) ordinary shares with a fully paid nominal value of ten Saudi Riyals (SAR 10) per share.</p> |
| Company's Activities                                    | In accordance with the By-Laws, the Company's activities consist of the following:   |
|   | The production, manufacturing, forming and forging of gold wares, jewellery, precious stones, gold alloys and gold sets formed with precious stones; distribution of accessories, glasses, watches, pens, perfumes and leather products; export of gold wares, and gold and silver alloys and forming precious metals and precious stones.   |
| Selling Shareholders                                    | Selling Shareholders' names and ownership in the Company pre- and post-offering are provided in the table below:   |

**Table S.2: Selling Shareholders and Their Ownership in the Company Pre- and Post-Offering**

| Shareholder                               | Pre-Offering            |                               |                     | Post-Offering           |                               |                     |
|---|-------------------------|-------------------------------|---------------------|-------------------------|-------------------------------|---------------------|
|   | No. of Shares           | Shareholding (%) <sup>1</sup> | Nominal Value (SAR) | No. of Shares           | Shareholding (%) <sup>1</sup> | Nominal Value (SAR) |
| L'azurde Holding Company                  | 42,970,332 <sup>2</sup> | 99.93%                        | 429,703,320         | 30,099,000 <sup>2</sup> | 69.998%                       | 300,990,000         |
| Abdullah Abdulaziz Al Othaim <sup>3</sup> | 8,167 <sup>4</sup>      | 0.019%                        | 81,670              | 1,000 <sup>5</sup>      | 0.0023%                       | 10,000              |
| Abdulaziz Saleh Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                        | 71,670              | -                       | -                             | -                   |
| Saleh Abdulaziz Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                        | 71,670              | -                       | -                             | -                   |
| Khalid Abdulaziz Al Othaim <sup>3</sup>   | 7,167                   | 0.017%                        | 71,670              | -                       | -                             | -                   |
| Public                                    | -                       | -                             | -                   | 12,900,000              | 30.0%                         | 129,000,000         |
| Total                                     | 43,000,000              | 100.0%                        | 430,000,000         | 43,000,000              | 100.0%                        | 430,000,000         |

Source: The Company

- 1- The shareholding percentages are rounded.
- 2- The number of Shares includes the Qualification Share held by non-shareholding Directors amounting 7,000 shares, excluding the qualification shares held by Mr Abdullah Abdulaziz Al-Othaim (for clarity, Mr Abdullah Abdulaziz Al Othaim is a shareholding Director). Pursuant to the Company's By-Laws, Directors that shall be appointed post-offering will own Qualification Shares from the listed shares on the Saudi Stock Exchange. Please see Section 5.1.1 ("Composition of the Board of Directors") for details regarding the Qualification Shares held by each Director.
- 3- Those Shareholders are the legal owners of the Shares set opposite their names. However, and except for Qualification Shares held by Mr Abdullah Abdulaziz Al Othaim, those Shares are beneficially owned by L'azurde Holding.
- 4- The number of Shares includes the Shares held as Qualification Shares by Mr Abdullah Abdulaziz Al-Othaim amounting to 1,000 shares.
- 5- The number of Shares represents the Shares held as Qualification Shares by Mr Abdullah Abdulaziz Al-Othaim.

|   |  |
|---|--|
| Share Capital   | SAR 430,000,000  |
| Total Number of Issued Shares                                   | 43,000,000 fully paid ordinary Shares.   |
| Nominal Value per Share   | SAR 10 per Share.  |
| Offering  | Initial public offering of 12,900,000 ordinary Shares, representing 30% of the Company's share capital through public offering at an Offer Price of SAR 37 per Share, with a fully paid nominal value of SAR 10 per Share.   |
| Number of Offer Shares  | 12,900,000 fully paid ordinary Shares.   |
| Percentage of Offer Shares to the total number of issued Shares | The Offer Shares represent 30% of the Company's share capital.   |
| Offer Price   | SAR 37 per Offer Share   |
| Total Value of Offer Shares                                     | SAR 477,300,000.   |
| Use of Proceeds   | The Net Proceeds from the Offering amounting to SAR 451,300,000 (after deducting the Offering expenses estimated at SAR 26,000,000), will be paid to the Selling Shareholders on a Pro-rata basis according to the number of Shares owned by each Selling Shareholder from the Offer Shares. The Company will not receive any part of the Offering proceeds (for further details, please see Section 8 ("Use of Proceeds")). |
| Number of Offer Shares to be Underwritten                       | 12,900,000 Shares.   |
| Total Offering Amount to be Underwritten                        | SAR 477,300,000.   |

|   |   |
|---|---|
| Categories of Targeted Investors  | <p>Subscription to the Offer Shares is restricted to the following two groups of investors:</p> <p><b>Tranche (A):</b> Institutional Investors comprising certain institutions and corporations, including investment funds (for further details, please see Section 1 ("Definitions and Abbreviations")); and</p> <p><b>Tranche (B):</b> Individual Investors comprising Saudi Arabian nationals, including any Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor Saudi Arabian children. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.</p> |
| Total Offer Shares available for each of the Targeted Investors' Categories:                    |   |
| Number of Offer Shares available to Institutional Investors                                     | 12,900,000 Shares representing 100% of the total number of Offer Shares. If there is a sufficient demand by individual investors, the Bookrunner shall have the right, subject to CMA's consent, to reduce the allocated Offer Shares to Institutional Investors to 9,030,000 Offer Shares representing 70% of the total Offer Shares.  |
| Number of Offer Shares Available to Individual Investors  | A maximum of 3,870,000 Offer Shares representing 30% of the total Offer Shares.   |
| Subscription Method for each of the Targeted Investors' Categories:                             |   |
| Subscription Method for Institutional Investors   | Institutional Investors as identified in Section 1 ("Definitions and Abbreviations") may apply for subscription. The Bookrunner will provide the Subscription Application Forms to the Institutional Investors during the book running process.   |
| Subscription Method for Individual Investors  | Subscription Application Forms will be available during the Offering Period at all Selling Agents' branches. Subscription Application Forms shall be completed in accordance with the instructions mentioned in Section 17 ("Subscription Terms and Conditions"). Individual Investors who have recently participated in previous initial public offerings can also subscribe through the Internet, telephone banking or automated teller machines ("ATMs") of any of the Selling Agents branches that offer any or all such services to its customers, provided that the following requirements are satisfied: (i) the Individual Investor shall have a bank account at a Selling Agent which offers such services; and (ii) there should have been no changes in the personal information or data of the Individual Investor since his subscription in the last Offering.   |
| Minimum Number of Offer Shares to be Applied for each of the Targeted Investors' Categories:    |   |
| Minimum Number of Offer Shares to be Applied for by Individual Investors                        | 10 Shares.  |
| Minimum Number of Offer Shares to be Applied for by Institutional Investors                     | 100,000 Shares.   |
| Minimum Subscription Amount by each of the Targeted Investors' Categories:                      |   |
| Minimum Subscription Amount for Individual Investors  | SAR 370.  |
| Minimum Subscription Amount for Institutional Investors   | SAR 3,700,000.  |
| Maximum Number of Offer Shares to be Applied for by each of the Targeted Investors' Categories: |   |
| Maximum Number of Offer Shares to be Applied for by Individual Investors                        | 250,000 Shares.   |
| Maximum Number of Offer Shares to be Applied for by Institutional Investors                     | 2,149,999 Shares.   |
| Maximum Subscription Amount by each of the Targeted Investors' Categories:                      |   |

|  |   |
|--|---|
| Maximum Subscription Amount for Individual Investors   | SAR 9,250,000.  |
| Maximum Subscription Amount for Institutional Investors  | SAR 79,549,963.   |
| Allocation and Refund of Excess Subscription Amount Method for each of the Targeted Investors' Categories: |   |
| Allocation of Offer Shares to Individual Investors   | Allocation of the Offer Shares to Individual Investors is expected to be completed no later than 14/09/1437H (corresponding to 19/06/2016G). The minimum allocation per Individual Investor is 10 Offer Shares, and the maximum allocation per Individual Investor is 250,000 Offer Shares, with any remaining Offer Shares, if any, being allocated on a prorata basis of the number of Offer Shares applied for by that Individual Investor to the total Offer Shares. In the event that the number of Individual Investors exceeds 387,000, the Company will not guarantee the minimum allocation of 10 Offer Shares per Individual Investor, and the Offer Shares will be allocated equally between all Individual Investors. Excess subscription monies, if any, will be refunded to Subscribers without withholding any charge or commission by the Lead Manager or the Selling Agents. |
| Allocation of Offer Shares to Institutional Investors  | Final allocation of the Offer Shares for Institutional Investors shall be made through the Bookrunner after the completion of the Individual Investors subscription process. The number of Offer Shares to be allocated to Institutional Investors is 12,900,000 Shares representing 100% of the total Offer Shares. In the event there is sufficient demand by Individual Investors for the Offer Shares, the Bookrunner has the right, after the consent of the CMA, to reduce the number of Shares allocated to Institutional Investors to 9,030,000 ordinary Shares, representing 70% of the total Offer Shares.  |
| Refund of Excess Subscription Monies   | Excess subscription monies, if any, will be refunded to Subscribers without withholding any charge or commission by the Lead Manager or the Selling Agents. Announcement of the final allotment and refund of excess subscription monies, if any, will be made no later than 15/09/1437H (corresponding to 20/06/2016G) (for further details, please see Section 17 ("Subscription Terms and Conditions") and "Key Dates and Subscription Procedures" on page (xv)).  |
| Offering Period  | The Offering will commence on 29/08/1437H (corresponding to 05/06/2016G) and will remain open for a period of nine (9) days up to and including the Offering Closing Date which is 08/09/1437H (corresponding to 13/06/2016G).  |
| Dividends' Distribution  | The Offer Shares will be entitled to receive any dividends declared and paid by the Company as at the date of this Prospectus and for subsequent fiscal years (for further details, please see Section 7 ("Dividend Distribution Policy")).   |
| Voting Rights  | The Company has one class of Shares only. None of the Shares carry any preferential voting rights. Each Share entitles its holder to one vote and each Shareholder with at least 20 Shares has the right to attend and vote at the General Assembly Meetings. A Shareholder has the right to delegate another Shareholder, but not a member of the Board of Directors, to attend the General Assembly meetings (for further details, please see Section 12.14 ("Description of Shares")).   |
| Restrictions on the Shares (Lock-up Period)  | L'azurde Holding may not dispose of any of its Shares for a period of nine (9) months from the date on which trading of the Offer Shares commences on the Exchange. After such Lock-up Period has elapsed, L'azurde Holding may only dispose of its Shares, after obtaining prior approval of the CMA in connection therewith.  |
| Listing of Shares  | Prior to the Offering, there has been no public market for the Shares in the Kingdom or elsewhere. An application has been made to the CMA for the registration and admission to listing of the Shares on the Exchange in accordance with the Listing Rules, and all relevant approvals required to conduct the Offering have been granted. Trading is expected to commence on the Exchange soon after the final allocation of the Shares (for further details, please see "Key Dates and Subscription Procedures" on page (xv)).   |

|                   |   |
|-------------------|---|
| Risk Factors      | There are certain risks related to the investment in the Offer Shares. These risks can be categorised into: (i) risks related to the operations of L'azurde Group; (ii) risks related to the market, industry and regulatory environment; and (iii) risks related to the Offer Shares. These risks are described in Section 2 ("Risk Factors") which should be considered carefully prior to making an investment decision in relation to the Offer Shares. |
| Offering Expenses | The Selling Shareholders will bear all Offering expenses and costs estimated at around SAR 26,000,000. These costs will be deducted from the Offering proceeds and include the fees of the Financial Advisor, the Underwriter, the Company's legal advisors and Auditors, the Market Consultant, in addition to the fees of Selling Agents, and marketing, printing and distribution expenses and other relevant expenses.                                  |
| Underwriter       | Saudi Fransi Capital<br>King Fahd Road<br>P.O. Box 23454, Riyadh 11426<br>Kingdom of Saudi Arabia<br>Tel:+ 966 (11) 282 6666<br>Fax:+ 966 (11) 282 6823<br>Website: <a href="http://www.sfc.sa">www.sfc.sa</a><br>Email: <a href="mailto:info@fransicapital.com.sa">info@fransicapital.com.sa</a>   |

Note: The "Important Notice" on page (iii) and Section 2 ("Risk Factors") should be read thoroughly prior to taking any decision as to whether invest or not in the Offer Shares.



## KEY DATES AND SUBSCRIPTION PROCEDURES

**Table S.3: Expected Offering Timetable**

| Expected Offering Timetable   | Date  |
|---|---|
| Offering Period   | A period of nine (9) days starting from Sunday 29/08/1437H (corresponding to 05/06/2016G) until the end of Monday 08/09/1437H (corresponding to 13/06/2016G)  |
| Bidding and book-building period for Institutional Investors  | The bidding and book-building for Institutional Investors will commence on Sunday 15/08/1437H (corresponding 22/05/2016G) and will remain open for five (5) days up until and including Thursday 19/08/1437H (corresponding 26/05/2016G)  |
| Deadline for submission of Subscription Application Forms based on the allocated shares for Institutional Investors       | On Thursday 26/08/1437H (corresponding to 02/06/2016G)  |
| Deadline for payment of the subscription monies for Institutional Investors based on their allocated Offer Shares         | On Sunday 07/09/1437H (corresponding to 12/06/2016G)  |
| Deadline for submission of Subscription Application Forms and payment of the subscription monies for Individual Investors | On Monday 08/09/1437H (corresponding to 13/06/2016G)  |
| Announcement of final Offer Shares allotment  | On Sunday 14/09/1437H (corresponding to 19/06/2016G)  |
| Refund of excess subscription monies (if any)   | On Monday 15/09/1437H (corresponding to 20/06/2016G)  |
| Offer Shares expected trading commencement date   | The Shares trading commencement is expected to start after completion of all relevant legal requirements and procedures. Announcement of the Shares trading commencement will be made through local newspapers and Tadawul's website ( <a href="http://www.tadawul.com.sa">www.tadawul.com.sa</a> ) |

Note: The above timetable and dates therein are indicative. Actual dates will be communicated through announcements appearing in national daily newspapers and on the Tadawul website ([www.tadawul.com.sa](http://www.tadawul.com.sa)).

### How to Apply for an Offering

Subscription to the Offer Shares is restricted to the following two groups of investors:

- **Tranche (A):** Institutional Investors comprising a number of institutions and corporations, including investment funds (for further details, please see Section 1 ("Definitions and Abbreviations")). These investors may apply in accordance with the conditions set forth in this Prospectus. Institutional Investors can obtain the Subscription Application Forms from the Bookrunner during the Company's book-building process period; and
- **Tranche (B):** Individual Investors comprising individuals holding the Saudi Arabian nationality, including any Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

Subscription Application Forms for Individual Investor will be available during the Offering Period at the branches of the Selling Agents. Individual Investors can also subscribe through the internet, telephone banking or ATMs of any of the Selling Agents that that provide some or all of these channels to Individual Investors who have recently participated in previous initial public offerings, provided that the following requirements are satisfied:

- the Individual Investor must have a bank account at the Selling Agent which offers such services; and
- there should have been no changes in the personal information or data of the Individual Investor (by way of exclusion or addition of any member of his family) since he/she last participated in an initial public offering.

Each Individual Investor is required to fill out the Subscription Application Form according to the instructions mentioned in Section 17 ("Subscription Terms and Conditions"). Each Individual Investor must complete all the relevant sections in the Subscription Application Form. The Company reserves the right to reject any Subscription Application Form, in part or in whole, if any of the subscription terms and conditions is not met. If two subscriptions are submitted, the second shall be deemed void and only the first one shall be taken into consideration. The Subscription Application Form cannot be amended or withdrawn once submitted. Furthermore, the Subscription Application Form shall, upon submission, be considered to be a legally binding offer by the relevant Subscriber to the Selling Shareholders (for further details, please see Section 17 ("Subscription Terms and Conditions")).

Excess subscription monies, if any, will be refunded to the prime Subscriber's account held with the Selling Agent from which the subscription value has been debited in the first place, without any commissions or withholding by lead managers or selling agents. Excess subscription value shall not be refunded in cash or to third-party accounts.

## SUMMARY OF KEY INFORMATION

This summary of key information is intended to give an overview of the information contained in this Prospectus. However, it does not contain all the information that may be important to prospective investors. Accordingly, this summary must be treated as an introduction to this Prospectus, and recipients of this Prospectus are advised to read the entire Prospectus in full so that any decision to invest in the Offer Shares by prospective investors should be based on the consideration of this Prospectus as a whole. In particular, it is important to carefully consider the "Important Notice" on page (ii) and Section 2 ("Risk Factors"), respectively, prior to making any investment decision in the Offer Shares.

## OVERVIEW OF L'AZURDE GROUP

### History of L'AZURDE GROUP

The Company was originally established as a sole establishment owned by Mr Abdulaziz Saleh Al Othaim in Riyadh, under the name of "The Saudi Gold & Pearl Factory" with a capital of SAR 18,500,000, and registered in the commercial register in the city of Riyadh under commercial registration No. 1010091134, dated 18/7/1412H (corresponding to 23/1/1992G). On 4/2/1415H (corresponding to 13/7/1994G), "L'azurde" trademark was first registered; and on 18/8/1418H (corresponding to 19/12/1997G), the name of the establishment was changed to "L'azurde Gold & Jewellery Factory".

The establishment of L'azurde Gold & Jewellery Factory and a number of its branches were changed to a Saudi closed joint stock company under the name of L'azurde Company for Jewelry registered in Riyadh, the Kingdom by virtue of the Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006G) and the Commercial Registration No. 1010221531 dated 26/6/1427H (corresponding to 22/7/2006G) issued in Riyadh, with a share capital of SAR 200,000,000 divided into 4,000,000 ordinary shares with a nominal value of SAR 50 per share. The capital increase was covered by capitalisation of SAR 47,500,000 (forty seven million five hundred thousand) representing total transferred capital of the establishment branches as well as capitalisation of SAR 134,000,000 (one hundred thirty four million) from the retained earnings of the establishment.

On 5/11/1423H (corresponding to 8/1/2003G), OroEgypt Company for Manufacturing Precious Metals ("OroEgypt"), a joint stock company with paid capital of EGP 20,000,000 (equivalent to SAR 9,578,227), was established in Egypt by Mr Abdulaziz Saleh Al Othaim, the main shareholder of the Company at that time, and other founders (names are shown in table 4.3 in Section 4.2 ("Corporate History and Evolution of Capital")). It started operations on 21/11/1423H (corresponding to 23/1/2003G). The main activities at that time were limited to manufacturing, production, forming and forging golden wares, jewellery and precious and semi-precious stones. On 8/3/1428H (corresponding to 27/3/2007G), the Company acquired a 100% of direct and indirect interest in OroEgypt Company (for more information about OroEgypt, please see Section 4.2 ("Corporate History and Evolution of Capital") and Section 4.3.2.7 ("OroEgypt Company for Manufacturing Precious Metals")).

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

On 20/9/1429H (corresponding to 20/3/2008G), Mr Abdulaziz Saleh Al Othaim transferred 10,500,000 shares (representing 35% of the total shares of the Company) to L'azurde Holding, increasing its stake in the L'azurde Holding to 70% or 21,000,000 Shares (representing 70% of the Company's total shares of 30,000,000 Shares).

On 10/1/1430H (corresponding to 7/1/2009G), the Shareholders of the Company transferred a total of 8,980,000 shares (representing 29.9% of the total shares of the Company) to L'azurde Holding, and, on 29/4/1430H (corresponding to 25/4/2009G), L'azurde Holding subsequently transferred 6,000 shares (representing 0.02% of the total shares of the Company) to the Directors to be held as Qualification Shares (for more information about transfer of the Company's share ownership, please see Section 4.2 ("Corporate History and Evolution of Capital")).

In 2009G, the consortium ("Consortium") of Gulf Growth Gold Holding (owned by both of Investcorp Gulf Opportunity Fund Company 1 and Investcorp GO Company 4), Fidelity Invest Owned by The National Investor PJS - One Man Company LLC (owned by The National Investor Company) and Eastgate MENA SPV5 Holding (owned by Eastgate MENA SPV6 Holding) acquired indirectly, through Gulf Investors Gold Holding Company, a majority stake of 70% in the Company pursuant to the purchase agreement done between the Consortium and each of Saleh Abdulaziz Al Othaim and Abdulaziz Saleh Al Othaim. In 2010G, the Consortium acquired a further 7.5% in the Company from Saleh Abdulaziz Al Othaim and Abdulaziz Saleh Al Othaim as per the terms of the purchase agreement between the Consortium and Mr Abdulaziz Saleh Al Othaim. Therefore, the ownership of Gulf Investors Gold Holding (on behalf of the Consortium) as at the date of this Prospectus, is a beneficial ownership estimated at 77.5% (for further details on share ownership structure, see Section 4.4 ("Current Shareholding Structure")).

On 11/9/1433H (corresponding to 30/7/2012G), L'azurde Group extended its existence in Egypt through acquiring a 100% indirect interest in L'azurde Egypt for Jewellery (LLC) (formerly the International Company for Jewellery Manufacturing) ("L'azurde Egypt"), becoming its second production unit in Egypt. The main activities at that time are establishing and operating a factory to produce golden wares, jewellery and precious stones (for more information about L'azurde Egypt, please see Section 4.3.2.4 ("L'azurde Egypt for Jewellery, LLC")).

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

On 21/5/1437H (corresponding to 1/3/2016G), L'azurde Holding Company transferred 2,000 shares (representing 0.00465% of the Company's total shares) to two board members recently appointed (Abdul Kareem Assad Abu Alnasr and Amin Mohamed Akef Al-Maghrabi).

## Principal Business Activities

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

- **Manufacturing and production segment:** primarily consisting of the design and production of gold wares, diamond jewellery and precious and semi-precious stones;
- **Wholesale segment:** primarily consisting of the wholesale to more than 1,800 third-party independent retailers of gold and diamond jewellery in the Kingdom; and
- **Retail segment:** primarily consisting of the selling of diamond jewellery across its own L'azurde brand retail shops mainly in the Kingdom, Egypt and UAE.

L'azurde Group's core business model consists of designing and manufacturing gold jewellery and distributing and selling of such by weight to a large network of more than 2,200 third-party retailers across the MENA region. L'azurde Group borrows gold from financial institutions and sells gold jewellery by weight where it requires retailers to reimburse in the form of physical weight of gold sold, in addition to the labour service charge in SAR, or the relevant currency. As part of its strategy in managing price volatility risks, and instead of buying gold and being exposed to the gold price fluctuations, L'azurde Group borrows its entire gold needs from banks with different terms ranging from one to six months, while the average collection period from clients is 32 days. This ensures that its gold assets, represented in accounts receivables held as inventory, always equal its liabilities of gold loans at all times. In case of delayed collection from clients, the Company obtains new loans to cover the deficit in collection which leads to the equivalent increase in current assets, represented by account receivables with the increase in current liabilities, represented in gold loans, thus mitigating the risk of gold price fluctuations.

## Gold and Diamonds Jewellery Wholesale

L'azurde Group designs and manufactures gold jewellery in each of Egypt and the Kingdom, and distributes and sells gold jewellery across more than 52 countries mainly in the MENA region and through more than 2,200 third-party independent retailers. L'azurde Group has its own wholesale team in the Kingdom, Egypt, the UAE and Qatar. In other markets L'azurde Group sells through exclusive and non-exclusive distributors or sells directly to various retailers.

To expand its revenues and leverage its strong brand name, L'azurde Group started a new diamond wholesale jewellery operation in 2013G selling L'azurde-branded diamond jewellery and Kenaz-branded diamond jewellery to third-party retailers in the largest markets of the Kingdom and Egypt.

### Gold and Diamonds Jewellery Retail

To diversify its revenues and leverage the well-established brand name, L'azurde Group expanded into the retail jewellery business focusing initially on the Kingdom and Egypt. As at 31 December 2015G, L'azurde Group operated its own portfolio of 14 L'azurde-branded jewellery stores; 11 stores in Saudi Arabia, two stores in Egypt and one store in the UAE (for more information about locations of the stores, please see Table 4.30, Section 4.7.1.3 ("Gold and Diamonds Jewellery Retail")). L'azurde Group's strategy is focused on launching new L'azurde-branded retail shops at top locations in key shopping malls focussing mainly on assortments of diamond jewellery. The vision is to reach a network of 50 shops in the coming years, with a focus on securing top locations to maximise revenues and profitability. The retail business does not conflict with the gold jewellery wholesale business as the retail focus of L'azurde Group is on diamond jewellery sold by piece while the gold jewellery wholesale business sells gold jewellery by weight.

### Distribution of Jewellery Manufacturing Machinery

L'azurde Group represents various equipment manufacturers of jewellery machinery and sells in the Kingdom their machinery, such as jewellery casting, laser soldering and ultrasonic machines, to various manufacturers of gold and diamond jewellery.

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

**Table S.4: L'azurde Group's Revenues from Operations by Product Category<sup>1</sup>**

|                            | 2013G SAR<br>Million | % of total<br>revenue | 2014G SAR<br>Million | % of total<br>revenue | 2015G SAR<br>Million | % of total<br>revenue |
|----------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
| Gold sales<br>jewellery    | 385                  | 82%                   | 403                  | 82%                   | 449                  | 85%                   |
| Diamond sales<br>jewellery | 82                   | 17%                   | 85                   | 17%                   | 72                   | 14%                   |
| Machinery and<br>Others    | 5                    | 1%                    | 6                    | 1%                    | 9                    | 2%                    |
| Total                      | 472                  | 100%                  | 494                  | 100%                  | 530                  | 100%                  |

Source: The Company

1- Please note that revenue relates to operating revenue only and does not include gold value from gold wholesale business.

### Operations and Geographic Locations

L'azurde Group's headquarters are located in Riyadh, Saudi Arabia. As on 31 December 2015G, L'azurde Group operated directly in 18 wholesale offices within the Kingdom and in the United Arab Emirates, Qatar, and Egypt, with three manufacturing units (one in the Kingdom and two in Egypt), and 14 retail showrooms located across the Kingdom, UAE and Egypt. In addition, L'azurde Group sells its products in 52 countries through a network of exclusive and non-exclusive distributors, wholesalers and retailers.

### Manufacturing Facilities and Capacity

L'azurde Group operates more than 32,000 sqm of manufacturing space for gold and diamond jewellery. The factory in the Kingdom, located in Riyadh, employing 995 craftsmen as at December 2015G and established in 18/7/1412H (corresponding to 23/1/1992G), manufactures products sold in both the Kingdom and international markets, whereas the two factories in Egypt, one located in Cairo, employing 124 craftsman as at December 2015G, and established in 5/11/1423H (corresponding to 8/1/2003G), the second located in Qalyubia, employing 1,069 craftsmen at December 2015G, and acquired in 11/9/1433H (corresponding to 30/7/2012G), manufacture products mainly for sale in the local Egyptian market. L'azurde Group employs over 2,000 experienced gold and diamond jewellery craftsmen.

### Suppliers

L'azurde Group's strategy is to obtain its requirements for raw materials, machinery and equipment, sale and promotional services, and other requirements at the best quality, price and terms from trusted suppliers. Over time, L'azurde Group has built a strong network and database of trusted suppliers which

meet L'azurde Group's needs from different sources at competitive terms. The main supply material for L'azurde Group's operations is gold, which L'azurde Group obtains from well-established long-term relationships with several banks, either directly from the banks themselves or through their authorised dealers.

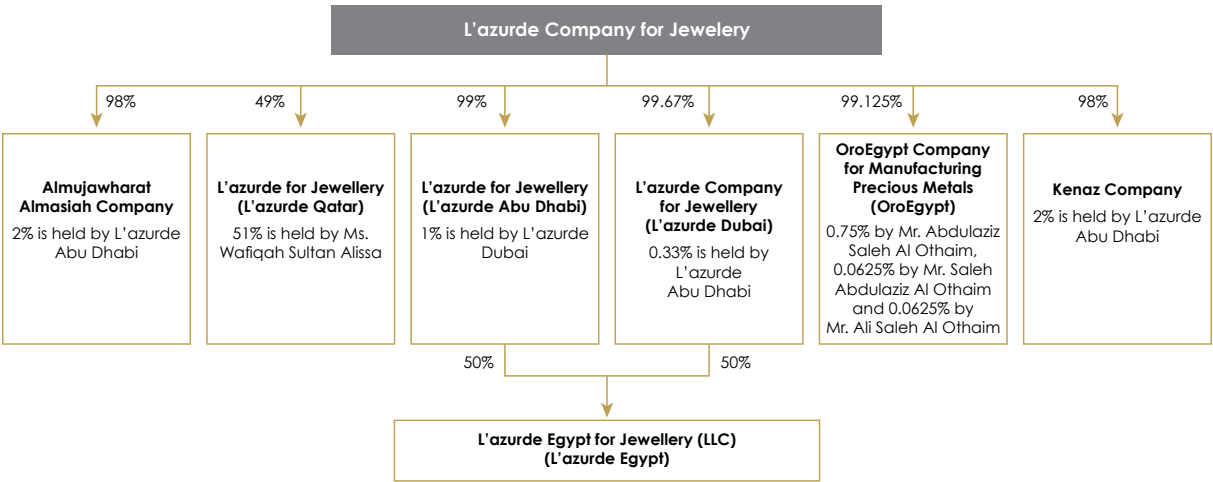
Growth Opportunities

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

Ownership Structure

The following chart illustrates the ownership structure of L'azurde Group:

Exhibit S.1: The Current Structure of L'azurde Group



Source: The Company

The following table summarises the ownership structure of the Company's subsidiaries:

**Table S.5: Details of the Company's Direct and Indirect Subsidiaries**

| Name of Subsidiary                                 | Country of Incorporation | Direct Interest (%) | Indirect Interest (%) | Remaining Ownership  |
|--|--------------------------|---------------------|-----------------------|--|
| Almujawharat Almasiah Company                      | Saudi Arabia             | 98.00%              | 2.00%                 | N/A  |
| Kenaz Company                                      | Saudi Arabia             | 98.00%              | 2.00%                 | N/A  |
| L'azurde Company for Jewellery <sup>1</sup>        | United Arab Emirates     | 99.67%              | 0.33%                 | N/A  |
| L'azurde Egypt for Jewellery (LLC)                 | Egypt                    |                     | 100%                  | N/A  |
| L'azurde for Jewellery <sup>2</sup>                | United Arab Emirates     | 99.00%              | 1.00%                 | N/A  |
| L'azurde for Jewellery <sup>3</sup>                | Qatar                    | 49.00%              |                       | 51% is held by Ms Wafiqah Sultan Al Essa   |
| OroEgypt Company for Manufacturing Precious Metals | Egypt                    | 99.125%             | 0.875%                | 0.75% is held by Mr Abdulaziz Saleh Al Othaim, 0.0625% is held by Mr Saleh Abdulaziz Al Othaim and 0.0625% is held by Mr Ali Saleh Al Othaim |

Source: The Company

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

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

3- L'azurde for Jewellery is a limited liability company incorporated in the State of Qatar.

The following table summarises the ownership structure of the Company before and after the Offering:

**Table S.6: Direct Ownership Structure of the Company Pre- and Post-Offering**

| Shareholder                               | Pre-Offering            |                               |                    | Post-Offering           |                               |                     |
|---|-------------------------|-------------------------------|--------------------|-------------------------|-------------------------------|---------------------|
|   | No. of Shares           | Shareholding (%) <sup>1</sup> | Nominal Value(SAR) | No. of Shares           | Shareholding (%) <sup>1</sup> | Nominal Value (SAR) |
| L'azurde Holding Company                  | 42,970,332 <sup>2</sup> | 99.93%                        | 429,703,320        | 30,099,000 <sup>2</sup> | 69.998%                       | 300,990,000         |
| Abdullah Abdulaziz Al Othaim <sup>3</sup> | 8,167 <sup>4</sup>      | 0.019%                        | 81,670             | 1,000 <sup>4</sup>      | 0.0023%                       | 10,000              |
| Abdulaziz Saleh Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                        | 71,670             | -                       | -                             | -                   |
| Saleh Abdulaziz Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                        | 71,670             | -                       | -                             | -                   |
| Khalid Abdulaziz Al Othaim <sup>3</sup>   | 7,167                   | 0.017%                        | 71,670             | -                       | -                             | -                   |
| Public                                    | -                       | -                             | -                  | 12,900,000              | 30.0%                         | 129,000,000         |
| Total                                     | 43,000,000              | 100.0%                        | 430,000,000        | 43,000,000              | 100.0%                        | 430,000,000         |

Source: The Company

1- The shareholding percentages are rounded.

2- The number of Shares includes the Qualification Share held by non-shareholding Directors amounting to 7,000 shares, excluding qualification shares held by Mr Abdullah Abdulaziz Al Othaim (nominee shareholder). Pursuant to the Company's By-Laws, Directors that shall be appointed post offering will own Qualification Shares from the listed shares on the Saudi Stock Exchange. Please see Section 5.1.1 ("Composition of the Board of Directors") for details regarding the Qualification Shares held by each Director.

3- Those Shareholders are the legal owners of the Shares set opposite their names. However, and except for Qualification Shares held by Mr Abdullah Abdulaziz Al Othaim, those Shares are beneficially owned by L'azurde Holding.

4- The number of Shares includes the Shares held as Qualification Shares amounting to 1,000 shares.



## Vision, Mission and Strategy

### Vision

L'azurde Group aims to become the most endearing, trusted and inspiring fashionable jewellery brand among other modern jewellery companies.

### Mission

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

### Strategy

L'azurde Group strives to become the leading manufacturer and distributor of gold and diamond jewellery products, in the Kingdom, Egypt, the MENA region and other international markets in which L'azurde Group operates. In furtherance of this vision, L'azurde Group has adopted the following business strategy:

- expand the gold jewellery wholesale business through innovation and improvements in the product lines, increase market share, particularly in the 18k segment, strengthen the trade marketing programmes for strategic key accounts, build partnerships with international companies, strengthen L'azurde Group's presence across all GCC markets and develop new product lines for the Western markets;
- expand the retail business by introducing new and better products and open new retail shops at top locations;
- expand the diamonds jewellery wholesale business by launching new collections, allocating more people and resources and expanding customer base;
- develop technology and enhance manufacturing to come up with more creative designs and differentiate L'azurde Group's products in the market and to maintain cost efficiency and optimise manufacturing processes, and further improve working capital efficiency to make the business more strategic, targeted and efficient;
- strengthen the brand image and expand the consumers' base using a holistic marketing strategy targeted across all key marketing media; and
- enhance organisation capabilities using human resources development and improve corporate governance through better policies, control procedures and risk management.

### The Company's Competitive Advantages

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

- (a) L'azurde Group's resilient business model and advanced technologies used in operations and marketing allow the Group to be relatively immune to fluctuations and volatility in gold prices. Such model, coupled with the Group's technology and manufacturing capabilities, strong brand and design capabilities, allow it to protect its market share in case of volatile gold prices. During periods of high gold prices, L'azurde Group has the technology and craftsmanship capabilities to produce jewellery at lower weight and hence meet the right consumer price points. In addition, L'azurde Group has very low gold loss in the manufacturing process, which puts limited financial pressure at high gold prices. As part of its commodity price risk management strategy, and instead of buying gold and being exposed to the gold price fluctuation, L'azurde Group borrows its entire gold needs directly from banks while matching at all times its gold assets with its gold loans, thus mitigating the risk of gold price fluctuation. Although L'azurde Group intends to continue using gold loan agreements to mitigate its exposure to gold price fluctuations. This resilient business model has enabled L'azurde Group to continuously increase its revenues and profitability over the years. The EBITDA increased by a CAGR of 10.9%, between 2013G and 2015G. This was achieved due to an increase in sales volume and high margin product mix. L'azurde Group's operational efficiencies also give it an edge over competition.
- (b) L'azurde Group has marketed its brand to be amongst the leading brands in the MENA region. This was achieved through major TV and print advertising campaigns, as well as using some celebrities as brand ambassadors, such as Elissa. L'azurde Group also markets its brand online and on social media.
- (c) L'azurde Group's manufacturing facilities enable it to efficiently design and produce a wide variety



of unique products to meet the evolving demands of consumers. L'azurde Group introduces over 5,000 designs per year, maintaining its status as a leading trend setter in the market. Also, L'azurde Group maintains a significant technological advantage with an investment in more than 500 advanced jewellery manufacturing machines.

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

## MARKET OVERVIEW

### Macro-economic Overview

#### Saudi Arabia

In recent years, the Kingdom has witnessed a strong surge in economic activity, fuelled by healthy GDP growth and a rapidly growing population. This has led to rising wealth levels and disposable income levels per capita, as well as an increase in urbanisation across the Kingdom. As a result, retail activity in the Kingdom grew significantly at a compound annual growth rate of 8.8% from SAR 360.5 billion in 2012G to SAR 426.5 billion in 2014G. The development of the overall retail sector in the Kingdom was also reflected in the jewellery market, given its high reliance on disposable income and discretionary spending

#### Egypt

The Egyptian economy started showing signs of recovery in 2014G, following a period of political unrest. Moreover, due to its fast growing population, adding close to one million new consumers every year, Egypt was able to minimise the negative effect of the political unrest on the consumer goods market.

#### Rest of GCC

GCC countries have witnessed a surge in population as their cumulative population has doubled over the past 10 years. This strong population growth was coupled with a healthy economic activity. Steady GDP growth was underpinned by increasing governmental expenditure on civil infrastructure. This has led to rising wealth levels and disposable income per capita. As a result, retail activity in the GCC countries (excluding the Kingdom) grew significantly at a compound annual growth rate of 6.1% from SAR 282.4 billion in 2012G to SAR 318.0 billion in 2014G.

### Jewellery Market Development

Over recent years, the gold and diamond jewellery market in the Kingdom and Egypt, and the gold jewellery market in the rest of the GCC countries (excluding the Kingdom) experienced strong growth due to several market drivers. These are outlined in the table below:

**Table S.7: Summary of Jewellery Market Drivers in the Kingdom, Egypt and Rest of GCC as at the Date of this Prospectus**

|  | Kingdom of Saudi Arabia | Egypt | Rest of GCC |
|--|-------------------------|-------|-------------|
| Decreasing gold prices                 | ✓                       | ✓     | ✓           |
| Population growth                      | ✓                       | ✓     | ✓           |
| Higher disposable income levels        | ✓                       | ✓     | ✓           |
| Increasing volume of pilgrims/tourists | ✓                       | ✓     | ✓           |
| Currency depreciation against USD      | ✓                       | ✓     |             |
| Increasing number of marriages         | ✓                       | ✓     |             |
| Large young adult population           | ✓                       | ✓     |             |

Source: Market Consultant report

The net effect of these drivers was an increase in the volume of the gold jewellery wholesale market across all regions, as well as an increase in the wholesale and retail diamond jewellery markets in the Kingdom, as outlined in the tables below.

**Table S.8: Gold Jewellery Wholesale Market Development by Volume (tons) in the Kingdom, Egypt and Rest of GCC from 2012G to 2015G**

|                                | 2012G | 2013G | 2014G | 2015G |
|--------------------------------|-------|-------|-------|-------|
| Kingdom of Saudi Arabia (tons) | 47.1  | 57.1  | 54.7  | 61.5  |
| Egypt (tons)                   | 69.2  | 77.1  | 76.2  | 83.2  |
| Rest of GCC (tons)             | 66.7  | 85.2  | 75.8  | 87.5  |

Source: Market Consultant report

**Table S.9: Diamond Jewellery Market Development by Value (SAR billion) in the Kingdom and Egypt from 2012G to 2015G**

|                                       | 2012G | 2013G | 2014G | 2015G |
|---------------------------------------|-------|-------|-------|-------|
| Wholesale                             |       |       |       |       |
| Kingdom of Saudi Arabia(SAR billion)  | 5.5   | 5.8   | 6.4   | 6.9   |
| Egypt (SAR billion)                   | 2.7   | 2.2   | 2.1   | 2.2   |
| Retail                                |       |       |       |       |
| Kingdom of Saudi Arabia (SAR billion) | 7.9   | 8.4   | 9.3   | 10.0  |
| Egypt (SAR billion)                   | 3.9   | 3.2   | 3.1   | 3.2   |

Source: Market Consultant report

## SUMMARY OF FINANCIAL INFORMATION

The selected financial information set out below should be read together with the audited consolidated financial statements for the financial years ended 31 December 2013G, 2014G and 2015G, including, in each case, the notes thereto, each of which are included in Section 19 ("Consolidated Financial Statements and Auditor's Report").

**Table S.10: Table Summary of Financial Information (SAR '000)**

| Consolidated Statement of Income        | 2013G<br>(Audited) | 2014G<br>(Audited) | 2015G<br>(Audited) |
|---|--------------------|--------------------|--------------------|
| Revenue: Gold                           | 2,455,647          | 2,248,511          | 2,284,094          |
| Revenue: Operations                     | *447,873           | 468,443            | 530,104            |
| Cost of sales: Gold                     | (2,455,647)        | (2,248,511)        | (2,284,094)        |
| Cost of sales: Operations               | ** (176,880)       | (167,260)          | (190,779)          |
| Gross profit                            | 270,993            | 301,183            | 339,325            |
| Selling and marketing expenses          | (111,799)          | (121,564)          | (137,403)          |
| General and administrative expenses     | (41,281)           | (48,991)           | (52,444)           |
| Income from main operations             | 117,913            | 130,628            | 149,478            |
| Financial charges                       | (30,191)           | (27,964)           | (34,896)           |
| Other income/(expenses), net            | (1,634)            | (3,133)            | 4,283              |
| Net income before Zakat and income tax  | 86,088             | 99,531             | 118,864            |
| Zakat                                   | (11,910)           | (13,240)           | (14,311)           |
| Tax on income from foreign subsidiaries | -                  | (3,986)            |                    |
| Net income for the period/year          | 74,178             | 86,291             | 100,567            |

\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to workshop orders of diamond products and L'azurde retail showrooms was removed, and as a sum of SAR 3.3 million related to gold wholesale to L'azurde retail showrooms. This revenue represents internal revenue incurred between L'azurde Group's divisions, as they are not considered to be actual external revenues and therefore its removal from L'azurde Group's financial results was necessary

\*\* Internal costs has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to the orders workshop of diamond products and L'azurde retail showrooms was removed, and as a sum of SAR 3.3 million related to the cost of gold wholesale to L'azurde retail showrooms. This cost represent internal cost incurred between L'azurde Group's divisions, as they are not considered to be actual additional costs and therefore its removal from L'azurde Group's financial results was necessary

| Consolidated Financial Position Statement | 2013G<br>(Audited) | 2014G<br>(Audited) | 2015G<br>(Audited) |
|---|--------------------|--------------------|--------------------|
| Current assets                            | 1,323,686          | 1,571,445          | 1,692,244          |
| Non-current assets                        | 65,880             | 65,969             | 75,198             |
| Total assets                              | 1,389,566          | 1,637,414          | 1,767,442          |
| Current liabilities                       | (899,532)          | (1,125,278)        | (1,244,032)        |
| Non-current liabilities                   | (23,740)           | (28,939)           | (32,389)           |
| Total liabilities                         | (923,272)          | (1,154,217)        | (1,276,421)        |
| Share capital                             | 300,000            | 300,000            | 430,000            |
| Retained earnings and other reserves      | 166,294            | 183,197            | 61,021             |
| Total shareholders' equity                | 466,294            | 483,197            | 491,021            |

| Cash Flow Statement                         | 2013G<br>(Audited) | 2014G<br>(Audited) | 2015G<br>(Audited) |
|---|--------------------|--------------------|--------------------|
| Net cash from/used in operating activities  | 171,606            | (3,538)            | 190,988            |
| Net cash from/used in investment activities | (25,867)           | 1,058              | (19,235)           |
| Net cash from/used in financing activities  | (23,059)           | (62,827)           | (43,000)           |

Source: The Company, the Consolidated Audited Financial Statements.

## KPIs

**Table S.11: Key performance indicators**

|                                       | 2013G (audited) | 2014G (audited) | 2015G (audited) |
|---------------------------------------|-----------------|-----------------|-----------------|
| Gross profit/revenue from operations  | 57.5%           | 64.3%           | 64.0%           |
| Net income/revenue from operations    | 15.7%           | 18.4%           | 19.0%           |
| Current assets/current liabilities    | 147.2%          | 139.6%          | 136.0%          |
| Total liabilities/total assets        | 66.4%           | 70.5%           | 72.2%           |
| Total liabilities/total equity        | 198.0%          | 238.9%          | 260.0%          |
| Return on shareholders' equity        | 15.9%           | 17.9%           | 20.5%           |
| Return on total assets                | 5.3%            | 5.3%            | 5.7%            |
| Growth rates: Revenue from operations | 23.5%           | 4.6%            | 13.2%           |
| Net income growth rates               | 44.1%           | 16.3%           | 16.5%           |
| Days sales outstanding (DSO)          | 23              | 30              | 43              |
| Days inventory outstanding (DIO)      | 122             | 138             | 144             |
| Days payable outstanding (DPO)        | 33              | 51              | 41              |

Source: The Company

## SUMMARY OF RISK FACTORS

Before considering an investment in the Offer Shares, prospective investors are advised to carefully consider all the information contained in this Prospectus, particularly the risks stated below, which are described in detail in Section 2 ("Risk Factors").

### Risks Related to the Operations of L'azurde Group

- Changing end-consumer preferences
- Dependence on "L'azurde" brand
- Dependence on marketing activities to maintain "L'azurde" brand
- Decrease in end-consumer spending
- Impact of seasonality on L'azurde Group's revenues
- Lack of raw materials, increase in its cost, and dependence on key suppliers
- Impact of gold price fluctuations, on demand levels, on gold jewellery
- Risk associated with gold loan agreements
- Risk associated with personal guarantees provided by the shareholders
- Risk associated with excess/insufficient inventory
- Security, transport and fraud risks
- Disruptions due to natural disasters or other catastrophic events
- Ability to execute the targeted business plan and growth strategy
- Operation and market risks associated with international operations
- Ability to provide capital requirements
- Client credit risk
- Reliance on senior management and key personnel
- Risk associated with employee misconduct and/or errors
- Reliance on information technology infrastructure
- Adequacy of insurance coverage
- Litigation
- Protection of intellectual property rights
- Potential tax and Zakat liability
- Newly implemented corporate governance rules

- Formation of Board Committees
- Lack of experience in managing a publicly listed company

#### **Risks Relating to the Market, Industry and Regulatory Environment**

- Economic considerations
- Political instability and security concerns in the MENA Region
- Increase of competition
- Size of online jewellery business
- Risk of changes in the regulatory environment
- Issuance of new Companies Regulations
- Changes in product prices of energy, electricity, water and related services
- Risk associated with licences and approvals
- Compliance with saudisation requirements

#### **Risks Related to the Offer Shares**

- Effective control post-Offering by L'azurde Holding
- Absence of a prior market for the Shares
- Sale of a substantial number of the Shares in the market following the completion of the Offering
- Issuance of new Shares
- Fluctuation in the market price of the Shares
- Distribution of dividends

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## 1. Definitions and Abbreviations

|                         |  |
|-------------------------|--|
| 18k gold                | 18 karat gold composed of 75% gold, which is alloyed with other metals to make it strong enough for everyday wear.   |
| 21k gold                | 21 karat gold composed of 87.5% gold and 12.5% alloys, representing a good combination between gold content and jewellery strength.  |
| 24k gold                | 24 karat gold is pure gold (as it is typically too soft to be used in jewellery fabrication, it is usually kept in bullion or coin forms).   |
| Admission               | Admission of the Shares to listing and the admission of the Offer Shares to trading on the Exchange in accordance with Article 28 of the Listing Rules.  |
| Advisors                | Advisors of the Company in relation to the Offering, whose names appear on page (vii) of this Prospectus.  |
| AED or Emirati Dirham   | United Arab Emirates Dirham, the lawful currency of the United Arab Emirates.  |
| Almujawharat Almasiah   | Almujawharat Almasiah Company, a limited liability company incorporated in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010236734 dated 25/7/1428H (corresponding to 8/8/2007G).  |
| Audit Committee         | The audit committee of the Board of Directors.   |
| Auditors                | Ernst & Young & Co. (Public Accountants).  |
| Authorised Person       | A person authorised to carry out securities business by the CMA.   |
| BaaN                    | It is the provider of Enterprise Resources Planning system, which is based on operating systems like Unix, Windows and Linux. The software works as a unified integrated system linking all departments and divisions of the Company as the resources planning creates a single database containing all software designs including, but not limited to, manufacturing; like engineering, bills of materials, scheduling, capacity, workflow management, quality control, manufacturing process, and other softwares. |
| Beneficial Ownership    | A person shall be treated as a beneficial owner of shares if he has the ultimate beneficial ownership or control of the shares, whether through a chain of companies or otherwise.   |
| Board of Directors      | Board of Directors of the Company.   |
| Bookrunner              | Saudi Fransi Capital.  |
| Business Day            | Any day (with the exception of Fridays, Saturdays and official holidays) on which the Selling Agents are open for business in Saudi Arabia.  |
| By-Laws                 | The Bylaws of the Company, which are summarised in Section 12.13 ("Summary of By-Laws").   |
| CAGR                    | Compound Annual Growth Rate (the mean annual growth rate over a specified period of time longer than one year).  |
| Chairman                | Chairman of the Board of Directors.  |
| Chief Executive Officer | Chief executive officer of the Company.  |
| Chief Financial Officer | Chief financial officer of the Company.  |
| CMA                     | The Capital Market Authority, including, where the context permits, any committee, sub-committee, employee or agent to whom any function of the CMA may be delegated.  |
| CML                     | Capital Market Law issued under Royal Decree M/30 dated 2/6/1424H (corresponding to 1/8/2003G), as amended.  |
| Committees              | The Audit Committee and the Nomination and Remuneration Committee.   |
| Companies' Regulations  | The Companies' Regulations, issued under Royal Decree No. M/6, dated 22/3/1385H (corresponding to 21/7/1965G), as amended, which does not include the new Companies Regulations, issued under Royal Decree No. M/3, dated 28/1/1437H (corresponding to 10/11/2015G), that came into force on 25/07/1437H (corresponding to 02/05/2016G).   |
| Company                 | L'azurde Company for Jewelry.  |

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| Corporate Governance Regulations | The Corporate Governance Regulations of the Kingdom, issued by the CMA pursuant to Resolution No. 1/212/2006 dated 21/10/1427AH (corresponding to 12/11/2006G), as amended.  |
| Directors                        | The members of the Board of Directors.   |
| DZIT                             | Saudi Arabian Department of Zakat and Income Tax.  |
| EGP or Egyptian Pound            | Egyptian Pound, the lawful currency of Egypt.  |
| Exchange                         | The Saudi Arabian Stock Exchange (Tadawul).  |
| Extraordinary General Assembly   | An extraordinary general assembly of the Shareholders convened in accordance with the By-Laws.   |
| Financial Advisor                | Saudi Fransi Capital.  |
| Financial Institutions           | Banks and financial services companies.  |
| Financial Statements             | Audited consolidated financial statements for the financial years ended 31 December 2013G, 2014G and 2015G, as well as accompanying notes which have been audited by the Auditors in accordance with the accounting standards generally accepted in the Kingdom.   |
| G                                | Gregorian.   |
| GCC                              | Gulf Cooperation Council.  |
| GDP                              | Gross Domestic Product (the broadest quantitative measure of a nation's total economic activity, it represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time).  |
| GDP per capita                   | GDP per capita is a measure of average income per person in a country (it divides the GDP by the population).  |
| General Assembly                 | An Extraordinary General Assembly and/or an Ordinary General Assembly, and "General Assembly" shall mean any general assembly of the Company.  |
| Gold loss                        | Loss of gold through gold dust leakage, during manufacturing processes, to air, water, furniture, carpets and staff clothes. This is common in the gold industry.  |
| GOSI                             | General Organisation of Social Insurance in Saudi Arabia.  |
| Government                       | Government of the Kingdom (and "Governmental" shall be interpreted accordingly).   |
| H                                | Hijri.   |
| Individual Investors             | Individuals who are Saudi Arabian nationals, including Saudi female divorcees or widows from a marriage to non-Saudis who can subscribe in the names of their minor children, provided that any such woman provides proof that she is the child's mother.  |
| Institutional Investors          | Includes a number of institutions as follows:<br>(a) investment funds established in Kingdom that are offered to the general public and that invest in securities listed on the Saudi Stock Exchange, if permissible according to the terms and conditions of such funds, in accordance with the provisions and restrictions set forth in the Investment Fund Regulations;<br>(b) persons authorised by the CMA to deal in securities as principals, provided that the minimum capital adequacy requirements are complied with;<br>(c) public companies listed on the Exchange through their portfolios managed by Authorised Persons, as well as banks and insurance companies listed on the Exchange, in compliance with the rules and regulations issued by the CMA, provided that their subscription does not result in any conflict of interests; and |



|                                       |   |
|---------------------------------------|---|
|                                       | <p>(d) Unlisted Saudi companies upon confirmation by the Lead Manager that such company satisfies the following conditions:</p> <ul style="list-style-type: none"> <li>• it shall not be a subsidiary of a listed company;</li> <li>• it shall have a minimum shareholders' equity of SAR 50 million as per the latest audited financial statements, and that the audited statements are not older than two years;</li> <li>• it shall have an active investment portfolio pursuant to a statement by the relevant Authorized Person; and</li> <li>• the participation of such company does not result in a conflict of interest with the Company.</li> </ul> <p>(e) Government bodies and governmental entities in the Kingdom including companies that are wholly owned by the Government</p> |
| ISO                                   | International Organisation of Standardisation.  |
| Investment Funds Regulations          | Investment Funds Regulations issued by the board of the CMA pursuant to its Resolution Number 12192006, dated 3/12/1427H (corresponding to 24/12/2006G).  |
| Kenaz                                 | Kenaz Company, a limited liability company incorporated in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010352574 dated 21/11/1433H (corresponding to 7/10/2012G).   |
| Kingdom                               | Kingdom of Saudi Arabia.  |
| Labour Law                            | The Saudi Arabian Labour Law issued under Royal Decree No. M/51 dated 23/8/1426H (corresponding to 27/9/2005G), as amended.   |
| L'azurde Abu Dhabi                    | L'azurde Company for Jewellery, a limited liability company incorporated in Abu Dhabi, United Arab Emirates under commercial registration number 1060233, dated 1/6/2004G (corresponding to 13/4/1425H).  |
| L'azurde Dubai                        | L'azurde Company for Jewellery, a limited liability company incorporated in Dubai, United Arab Emirates under commercial registration number 1039193, dated 23/12/2008G (corresponding to 25/12/1429H).   |
| L'azurde Egypt                        | L'azurde Egypt for Jewellery, a limited liability incorporated in Cairo, Egypt under commercial registration number 14997, dated 8/6/2005G (corresponding to 1/5/1426H).  |
| L'azurde Group                        | Collectively, the Company and its Subsidiaries.   |
| L'azurde Holding                      | L'azurde Holding Company, a limited liability company incorporated in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010211110, dated 7/6/1426H (corresponding to 13/7/2005G).   |
| L'azurde Qatar                        | L'azurde Jewellery, a limited liability company incorporated in the State of Qatar under commercial registration number 60716, dated 21/5/2013G (corresponding to 11/7/1434H).  |
| Lead Manager                          | Saudi Fransi Capital.   |
| Listing Rules                         | The Listing Rules issued by the board of the CMA pursuant to resolution No. 3-11-2004, dated 20/08/1425H (corresponding to 4/10/2004G), as amended  |
| Lock-up Period                        | The period during which L'azurde Holding may not dispose of any of its Shares for a period of nine (9) months from the date on which trading of the Shares commences on the Exchange. At the end of this Lock-up Period, L'azurde Holding may dispose of its Shares only after obtaining the prior approval of the CMA.   |
| LSC                                   | Labour service charge (a flat rate per gramme of manufactured gold that the manufacturer charges to the retailer on top of the price of gold, representing the main source of revenue for the manufacturer).  |
| Market Consultant                     | Roland Berger Strategy Consultants Middle East W.L.L.   |
| Ministry of Labour                    | The Saudi Arabian Ministry of Labour.   |
| MOCI                                  | The Saudi Arabian Ministry of Commerce and Industry.  |
| Nomination and Remuneration Committee | The nomination and remuneration committee of the Board of Directors.  |



|                           |   |
|---------------------------|---|
| Nominee Shareholder       | Any legal owner holding shares for the benefit of another person pursuant to binding agreements   |
| Offer Price               | SAR 37 per Offer Share.   |
| Offer Shares              | 12,900,000 Shares, representing 30% of the issued share capital of the Company.   |
| Offering                  | The initial public offering of the Offer Shares.  |
| Offering Period           | The period starting from 29/08/1437H (corresponding to 05/06/2016G) for a period of nine (9) days up to and including the closing day on 08/09/1437H (corresponding to 13/06/2016G).  |
| Official Gazette          | Um Al Qura, the official Gazette of the Government of Saudi Arabia.   |
| Ordinary General Assembly | An ordinary general assembly of the Shareholders convened in accordance with the By-Laws.   |
| Ore processing            | Crushing and separating ore into valuable substances or waste through a variety of techniques.  |
| OroEgypt                  | OroEgypt Company for Manufacturing Precious Metals, a joint stock company incorporated in Cairo, Egypt under commercial registration number 7877 dated 17/1/2003G (corresponding to 14/11/1423H).   |
| Prospectus                | This document prepared by the Company in relation to the Offering.  |
| QAR or Qatari Riyal       | Qatari Riyal, the lawful currency of the State of Qatar.  |
| Qualification Shares      | The Shares held by each Director to guarantee the liability of each respective Director pursuant to Article 68 of the Companies' Regulations.   |
| Related Party             | <p>In this Prospectus and pursuant to the glossary of defined terms used in the regulations and rules of the CMA issued pursuant to the CMA board decision number 4112004 dated 20/8/1425H (corresponding to 4/10/2004G), as amended by CMA board decision number 3582014 dated 17/1/1436H (corresponding to 10/11/2014G), a "related party" includes any of the following:</p> <ul style="list-style-type: none"> <li>(a) affiliates of the Company;</li> <li>(b) substantial shareholders of the Company owning 5% or more of the Shares;</li> <li>(c) Directors or Senior Executives;</li> <li>(d) members of the board of directors or senior executives of an affiliate of the Company;</li> <li>(e) members of the board of directors or senior executives of substantial shareholders of the Company;</li> <li>(f) the financial advisor and the legal advisor to the Company;</li> <li>(g) any relatives of the persons described in a) to e) above; or</li> <li>(h) any company controlled by any person described in a) to g) above.</li> </ul> <p>in a) to h), where "control" means the ability to influence the actions or decisions of another person through, whether directly or indirectly, alone or with a relative or affiliate: (i) holding 30% or more of the voting rights in a company; or (ii) having the right to appoint 30% or more of the members of the governing body, and a "controller" shall be construed accordingly.</p> |
| SAR or Saudi Riyal        | Saudi Arabian Riyal, the lawful currency of the Kingdom.  |
| Scrap Gold                | The used gold sold by end users to different retailers. It is used by gold and jewellery retailers as a way of repay the outstanding gold debts to different wholesalers.   |
| Secretary                 | The secretary of the Board of Directors.  |
| Selling Agents            | The National Commercial Bank, Banque Saudi Fransi, Riyad Bank, Samba Financial Group, Saudi Hollandi Bank.  |
| Selling Shareholders      | The Shareholders whose names are set out in Table 1.6 ("Ownership Structure of the Company Pre- and Post-Offering").  |
| Senior Executives         | The members of the senior management of the Company listed in Table 5.4 ("Details of Senior Executives").   |

|                               |  |
|-------------------------------|--|
| Shareholder                   | Any holder of Shares in the Company.   |
| Shares                        | 43,000,000 fully paid ordinary shares of the Company with a nominal value of SAR 10 per share.   |
| SOCPA                         | The Saudi Organisation for Certified Public Accountants.   |
| Subscribers                   | Includes Institutional Investors and Individual Investors.   |
| Subscription Application Form | The subscription application form to be used by Institutional Investors and Individual Investors (as the case may be) to subscribe for the Offer Shares. |
| Subsidiaries                  | Almujawharat Almasiah, Kenaz, L'azurde Abu Dhabi, L'azurde Dubai, L'azurde Egypt, L'azurde Qatar and OroEgypt.   |
| Tadawul                       | The automated system for trading of Saudi shares.  |
| Underwriter                   | Saudi Fransi Capital.  |
| Underwriting Agreement        | The underwriting agreement entered into between the Company, the Selling Shareholders and the Underwriter in connection with the Offering.               |
| USD or US Dollar              | United States Dollar, the lawful currency of the United States of America.   |

## 2. Risk Factors

Prospective investors should carefully consider the following risk factors, and the other information contained in this Prospectus, prior to making an investment decision with respect to the Offer Shares. The risks and uncertainties described below are those that the Company currently believes could affect L'azurde Group and any investment in the Offer Shares. However, the risks listed below do not necessarily comprise all those affecting L'azurde Group or associated with an investment in the Offer Shares. There may be additional risks and uncertainties that the Directors are currently not aware of, or that the Directors currently believe are immaterial. The occurrence of any such risks and uncertainties may materially and adversely affect L'azurde Group's business, financial condition, results of operations and/or prospects, the price of the Shares may decline, the Company's ability to pay dividends could be impaired and/or investors may lose all or part of their investment.

The Company's Directors also confirm that, to the best of their knowledge and belief, there are no other material risks as at the date of this Prospectus besides those mentioned in this section that may affect investors' decisions to invest in the Offer Shares.

An investment in the Offer Shares is only suitable for those investors who are able to evaluate the risks and the benefits of such investment and who have sufficient resources to bear any loss resulting from such investment. Prospective investors who have doubts about which actions to take should refer to a financial adviser duly licenced by the CMA for advice about investing in the Offer Shares.

The risks described below are not presented in any assumed order of priority that can reflect their expected impact on L'azurde Group.

### 2.1 Risks Related to the Operations of L'azurde Group

#### 2.1.1 Changing End-consumer Preferences

The jewellery industry is characterised by changing fashion trends and changing or evolving end-consumer preferences. If L'azurde Group is unable to anticipate, identify and capitalise on emerging fashion trends by designing, developing, marketing and delivering innovative, good quality, wellpriced and fashionable jewellery that is competitive with other manufacturers and brands and that meets continually changing end-consumer tastes, it would limit its' ability to differentiate, segment and price its products, adversely affect end-consumers' acceptance of its jewellery lines, like gold and diamond jewellery, within the sales categories that it serves, and limit sales potential, which in turn could impact demand by its wholesale customers, and would have a material adverse effect on L'azurde Group's business, financial condition, results of operations and prospects.

#### 2.1.2 Dependence on "L'azurde" Brand

L'azurde Group considers its "L'azurde" brand (its association with quality, luxury and exclusivity) to be one of its most important assets. L'azurde Group derives substantially all of its revenue from the sales of its branded jewellery products, which rely on the strength of the "L'azurde" brand, including the level of end-consumer recognition and perception of the brand. The strength of the brand depends on several factors, such as the quality of products, brand perception, product design, materials used to manufacture products, and the distinct character and presentation of products, as well as the image of the retail outlets where the products are sold and the "L'azurde" brand is displayed. Failure to manage any of the above factors would adversely affect the value and perception of the "L'azurde" brand and L'azurde Group's ability to maintain existing and attract new wholesale customers and/or end-consumers, and it would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

#### 2.1.3 Dependence on Marketing Activities to Maintain "L'azurde" Brand

Marketing activities are crucial for sustaining the "L'azurde" brand and attracting the critical mass of end-consumers required for the success of L'azurde Group's business. Developing, promoting and positioning its brand will depend largely on the success of its marketing and merchandising efforts. In particular, L'azurde Group may face brand dilution to the extent it fails to develop, promote and position its brand effectively and consistently with respect to new products or any new product categories. To promote its brand and products, L'azurde Group has incurred, and expects to continue to incur, substantial expenses related to advertising and other marketing efforts, including magazine and television advertising, sponsorships by celebrities and brand representatives, public relations events, outdoor marketing and producing brochures, but there can be no assurance that these efforts will be successful and result in increased sales.

In addition, adverse publicity regarding "L'azurde" brand products or in respect of L'azurde Group's third-party vendors or the jewellery industry in general, and any media coverage resulting therefrom, may harm the "L'azurde" brand and reputation, cause a loss of end-consumer confidence in the "L'azurde" brand and the industry, and negatively affect L'azurde Group's results of operations. The considerable expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such incidents. Failure of L'azurde Group's marketing and merchandising efforts would adversely affect the value and perception of the "L'azurde" brand, and it would have a material adverse effect on L'azurde Group's business, financial condition, and results of operations or prospects.

#### **2.1.4 Decrease in End-consumer Spending**

Different economic fluctuations in the Kingdom and other countries where L'azurde Group conducts its business affect the end-user consumption and behavior patterns towards luxury products and leisure goods, including gold and diamond jewellery. In particular, oil industry represents a big share of the Kingdom's GDP, and unfavorable fluctuations in oil prices will have an adverse impact on the Kingdom's economy. Such impact will also affect end consumer discretionary spending, which, in turn, will have a negative impact on the gold and diamond jewellery industry. Furthermore, any unfavorable fluctuations in other economic factors beyond the Groups' control, like the availability of credit to consumers, prevailing interest rates, employment rates, salary rates and tax rates, will also affect the end consumer discretionary spending. Since gold and diamond jewellery are considered luxury products and discretionary or optional goods to end-users, L'azurde Group's wholesale customers could be affected by any changes in end-consumers' spending patterns or behaviour. Any reduction in end-consumer discretionary spending or disposable income may affect the gold and diamond jewellery industry more than other industries. Other consumer leisure goods and services, such as travel, compete with jewellery and gold wares on consumers' discretionary expenditure. Therefore, the price of jewellery is largely affected, compared to other leisure products and services, by the proportion of end-consumers' available discretionary expenditure. If the end-consumers perceive L'azurde Group's jewellery to be expensive (for example, due to a significant increase in the price of gold) compared to competing leisure and entertainment products and services, or if there is any reduction in discretionary end-consumer spending in general, this would have a negative effect on purchase orders from L'azurde Group's wholesale customers or impact L'azurde Group's direct sales to end-consumers in its own retail outlets, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

#### **2.1.5 Impact of Seasonality on L'azurde Group's Revenues**

The jewellery industry is seasonal in nature. In the Kingdom, Egypt and other MENA region countries, the demand for L'azurde Group's products is event driven, due to the jewellery tradition at ceremonial and festive events, such as weddings, Mother's Days, Eid holidays and new-born arrivals. L'azurde Group's revenue peaks during the first half of each year, particularly the second quarter, primarily due to increased demand for jewellery at the start of a new year after annual bonuses and raises have been announced, as well as the preparation for the summer wedding season. As a result, L'azurde Group's sales are subject to seasonal fluctuations. Due to these seasonal factors, comparison of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of L'azurde Group's annual performance. In addition, these seasonal consumption patterns cause L'azurde Group's operating results and financial condition to fluctuate from period to period.

#### **2.1.6 Lack of and of Raw Materials, Increase in its Costs and Dependence on Key Suppliers**

L'azurde Group's business relies on key suppliers of raw materials, in particular diamonds, which represent the second largest component of the cost of goods sold after gold. While diamonds are obtained through a variety of sources, if the availability of, access to, or cost of purchasing diamonds is adversely affected to a great extent (for example, due to a decrease in the number of suppliers of diamonds, or a reduction in the overall availability of diamonds), L'azurde Group would have to pay more for, or would be unable to source diamonds. L'azurde Group is therefore exposed to variation of cost and availability of raw materials, which may be subject to curtailment or change due to, among other things, interruptions in mining operations, labour disputes, the impaired financial condition of a particular supplier, suppliers' allocations to other purchasers, changes in prevailing price levels, ability to meet regulatory requirements, weather emergencies or acts of war or terrorism, the occurrence of which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations and prospects.

## 2.1.7 Impact of Gold Price Fluctuations, on Demand Levels for Gold Jewellery

Gold prices have significantly fluctuated over the past few years and have at times been volatile. Gold prices may be affected by a number of factors, such as: (i) industrial and jewellery demand; (ii) lending, sales and purchases of gold by government agencies (including central banks) and multilateral institutions that hold gold, and other proprietary trading; (iii) sales of recycled gold, levels of gold production, production costs and supply disruptions in major gold producing nations, such as South Africa, the United States and Australia; and (iv) other factors relating to how gold markets are structured (such as non-concurrent trading hours of gold markets and, at times, rapid short-term changes in supply and demand because of speculative trading activities), the structure of, and confidence in, the global monetary system, expectations of the rate of inflation, the relative strength of, and confidence in, the US dollar (the currency in which the price of gold is generally quoted), global interest rates, gold borrowing and lending rates and global or regional economic, political, regulatory, judicial or other events, as well as wars and other upheavals.

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

## 2.1.8 Risk Associated with Gold Loan Agreements

L'azurde Group borrows, instead of buying, its entire gold needs from Banks. Such loans have different terms ranging from one to six months, while the average period for collecting from customers reaches 32 days and the inventory holding period reaches 144 days (for the year ended 31 December 2015G). This ensures that L'azurde Group's gold assets, represented in accounts receivables kept as inventories, always equal its liabilities of gold loans at all times. In case of delayed collection from customers, the Company shall obtain new loans to cover the deficit in collection so that the increase in current assets, represented by accounts receivables, equals to the increase in current liabilities, represented by gold loans. However, there is no guarantee that L'azurde the Group will always be able to obtain gold loans for reasonable prices, on a timely basis to repay the current loans, or at all.

All L'azurde Group's gold loan agreements are terminable at the sole discretion of the lenders, and there are two gold loan agreements (representing 38.6% of the total value of available loans) that will expire on 25/09/ 1437H (corresponding to 30/06/2016G) and require renewal in the near future (for more information about such agreements, please see Section 12.6 ("Gold Loans and Financing Agreements")).

Moreover, the various gold loan and other financing agreements governing L'azurde Group's outstanding indebtedness contain covenants that limit, among other things, the level of L'azurde Group's indebtedness, and payment of dividends, and prescribe, among other things, a minimum level of gold inventories and receivables and a minimum net worth of L'azurde Group. A breach of a covenant or other provision in such agreements would result in a default under such agreements. L'azurde Group's ability to comply with the covenants and other provisions in such agreements may be affected by events beyond its control. Upon the occurrence of an event of default under any such agreement, or if L'azurde Group's creditors were to exercise their right of termination at will, L'azurde Group's creditors could elect to declare all outstanding gold amounts and/or financing to be immediately due and payable and terminate all commitments to extend further gold loans and/or credit. If L'azurde Group was unable to repay outstanding amounts, its creditors could seek to enforce collateral granted to them, if any, to secure the indebtedness. If L'azurde Group's current or future creditors accelerate the payment of the indebtedness owed to them, L'azurde Group cannot give an assurance that its assets would be sufficient to repay in full its outstanding indebtedness, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects. Moreover, L'azurde Group's failure or inability to obtain, effectively utilise or repay gold loans in managing its exposure to gold price movements would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects. For more information about gold loans and other financing agreements, please see Section 12.6 ("Gold Loans and Financing Agreements").

## **2.1.9 Risk Associated with Personal Guarantees Provided by the Shareholders**

Mr Abdulaziz Saleh Al Othaim has provided irrevocable personal guarantees undertaking to guarantee the obligations of the Company in respect of certain gold loan and other financing agreements made to L'azurde Group by Banque Saudi Fransi, National Commercial Bank, SAMBA and Saudi Hollandi Bank, and such guarantees remain valid throughout the terms of those agreements. The Company considers that it is normal market practice to request such guarantees and it is the market practice as well that banks release such personal guarantees once the company goes public. Actually, Saudi Hollandi Bank has already consented to release the personal guarantees in writing, but the Company has not yet received written consents from all other banks. If those banks do not consent to release such guarantees upon completion of the Offering, and do not release the requirement of providing such guarantees when the relevant gold loans and other financing arrangements are renewed, and Mr Abdulaziz Saleh Al Othaim does not agree to continue to provide such guarantees in the future, the concerned lenders may request additional guarantees and the Company may not be able to provide such additional security without an increase in the cost of finance, if at all, and the relevant banks may refuse to provide such finance with reasonable terms for the Company or provide it at all, each of which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects (For more details on such guarantees, please see Section 12.6 ("Gold Loans and Financing Agreements")).

## **2.1.10 Risk Associated with Excess/Insufficient Inventory**

L'azurde Group maintains appropriate amounts of certain raw materials and finished gold and diamond jewellery to cover the needs of its business. Moreover, orders are placed with L'azurde Group's suppliers based on the production plan and forecasts of wholesale customer and end-consumer demand and, in some instances, L'azurde Group may establish excess inventories to accommodate anticipated demand.

L'azurde Group's forecasts of wholesale customer and end-consumer demand are based on multiple assumptions, such as market growth, seasonal demand and key occasion's purchases, each of which may introduce errors into the estimates. L'azurde Group's wholesale customer network consists principally of retail outlets and chains in the Kingdom, Egypt and other MENA region countries. In accordance with industry practice, L'azurde Group generally does not have long-term sales arrangements with its wholesale customers and L'azurde Group's wholesale customers' purchase orders may vary significantly from period to period. As a result, short-term changes to these wholesale customers' purchasing decisions could affect L'azurde Group's inventory levels. If L'azurde Group overestimates wholesale customer and end-consumer demand, L'azurde Group may allocate resources to the purchase of raw materials or manufacturing jewellery that L'azurde Group may not be able to sell when L'azurde Group expects to or at anticipated prices, if at all. As a result, L'azurde Group would hold excess inventory, which would reduce gross margin and adversely affect financial results by increasing, among other things, melting costs of inventory for use in production. Conversely, if L'azurde Group underestimates wholesale customer and end-consumer demand or if insufficient manufacturing capacity is available, L'azurde Group would miss revenue opportunities and potentially lose market share and damage its wholesale customer relationships or its appeal to end-consumers. As a result, the inability of L'azurde Group to efficiently manage its inventory would have a material adverse effect on its business, financial condition, results of operations or prospects (For further details on inventory calculation system, see Section 4.7.3.7 ("Inventory Control and Distribution")).

## **2.1.11 Security, Transport and Fraud Risks**

L'azurde Group operates in a business that is susceptible to theft, and the high value of its inventory makes it even more susceptible. L'azurde Group has been historically embezzled by one of its employees, working as an administrator in the wholesale office located in Madinah. The employee embezzled 33 KG of gold and was sentenced, by the General Court in Madinah, to jail and is obliged to refund 26 KG of gold to L'azurde Group. The amount embezzled was fully compensated by the insurance company.

High-value theft may in the future result in a potentially material increase in L'azurde Group's insurance premiums and, in an extreme case, would compromise its ability to secure insurance on commercial terms, or at all. There can be no guarantee that there will be no occurrences of theft of gold and diamond jewellery at the retail premises or during the various production or transportation processes, which would have a material adverse effect on the Group's business and result in significant financial losses.

Jewellery robberies tend to be violent in nature. There can be no guarantee that all the precautions L'azurde Group takes to ensure the safety of its employees and inventories in such situations will be adequate. Harm to its staff would have serious repercussions for its reputation and employee morale and could lead to legal action being taken against L'azurde Group. In addition, the transportation of L'azurde Group's gold and diamond jewellery products to wholesale customers and its own retail outlets also



exposes L'azurde Group to risks. Moreover, any security breach or failure in transport logistics would result in a material loss in inventory and have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

Furthermore, L'azurde Group was a victim of a number of frauds by some clients where they submitted uncollectable checks (with insufficient and unwithdrawable funds) in consideration of the purchase of products from L'azurde Group on deferred payment basis (for more details regarding such transactions, see Section 12.12 ("Litigation")). However, there is no guarantee that L'azurde Group will not be subject to such transactions, which might have a material adverse effect on the Group's reputation and brand and result in significant financial losses.

#### **2.1.12 Disruptions Due to Natural Disasters or Other Catastrophic Events**

L'azurde Group's businesses depend on ongoing and efficient operations of its manufacturing facilities in the Kingdom and Egypt. Natural disasters or other catastrophic events, including terrorist attacks, computer hacker attacks, power failure or water supply failure, would disrupt L'azurde Group's manufacturing facilities and supply channels and adversely affect L'azurde Group's operations. Material interruptions in manufacturing capabilities or supply channels will inevitably increase production costs, and reduce revenue and profitability of L'azurde Group and could potentially result in a loss of wholesale customers and end-consumers due to delayed shipments of its products to its wholesale customers or its own retail outlets. Therefore, any natural disaster or catastrophic event affecting the manufacturing facilities of L'azurde Group would have a material adverse effect on its business, financial condition, results of operations or prospects.

#### **2.1.13 Ability to Execute the Targeted Business Plan and Growth Strategy**

L'azurde Group's future performance depends on the successful execution of its business plan and growth strategy. Due to the diversity of L'azurde Group's activities and its international geographical spread, its ability to successfully expand to new markets or expand its penetration of already existing markets is dependent on a number of factors, including L'azurde Group's ability to:

- establish definitive business strategies, goals and objectives;
- respond to technological advances in the jewellery manufacturing industry on a costeffective and timely basis;
- market its products to current and new wholesale customers and end-consumers;
- secure new retail outlets in attractive locations at favourable lease terms;
- correctly identify and exploit new geographical markets, successfully compete in those markets and comply with regulatory requirements in those markets;
- sustain the adequacy of L'azurde Group's financial resources;
- maintain a system of inventory and management controls; and
- hire, train and assimilate new employees.

There can be no assurance that L'azurde Group will be able to execute its business plan and growth strategy successfully, and that therefore its products will gain access to new markets or be accepted in new marketplaces or achieve greater market penetration in existing markets or that L'azurde Group will achieve planned operating results or results comparable to those L'azurde Group experiences in existing markets in the new markets L'azurde Group enters. Any failure to execute L'azurde Group's business plan and growth strategy would have a material adverse effect on its business, financial condition, results of operations or prospects.

#### **2.1.14 Operation and Market Risks Associated with International Operations**

In the years ended 31 December 2014G and 2015G, L'azurde Group generated revenue outside the Kingdom of around SAR 256.7 million and SAR 278.7 million, respectively, representing 55% and 53%, respectively, of L'azurde Group's total revenue in the same periods, while Egypt's revenue represents 44.6% and 41.9%, respectively, of L'azurde Group's total revenue. It also has foreign manufacturing operations in Egypt and foreign suppliers. As a result, L'azurde Group is subject to the risks of doing business outside the Kingdom, such as:

- potentially adverse tax consequences, including from changes in taxation policies or from inconsistent enforcement;
- becoming subject to the different, complex and changing laws, regulations and court systems of multiple jurisdictions and compliance with a wide variety of foreign laws, treaties and regulations, including import and export licensing requirements and regulations, as well as unforeseen changes in regulatory requirements;

- rapid changes in government, economic and political policies and conditions, political or civil unrest or instability, terrorism or epidemics and other similar outbreaks or events;
- reliance on third-party carriers for product shipments to wholesale customers and L'azurde Group's own retail outlets;
- risk of product theft during shipment;
- limited payment and shipping options for L'azurde Group and its wholesale customers;
- uncertainties as to enforcement of certain contractual and other rights; and
- restrictions on repatriation of the foreign subsidiaries' profits to L'azurde Group.

In particular, L'azurde Group's results of operations may be affected positively or negatively by volatility in currency exchange rates and L'azurde Group's ability to effectively manage its currency transaction risks, especially in relation to the Egyptian pound in light of its fluctuation over the past couple of years. As L'azurde Group continues to expand internationally, L'azurde Group's exposure to currency risks will increase. There can be no assurance that, as L'azurde Group has not concluded any hedge agreements to reduce its currency exposure risks, changes in exchange rates between the foreign currencies in which L'azurde Group does business and the Saudi Riyal will not affect L'azurde Group's revenue, cost of sales, and operating margins, and that such changes will not result in exchange losses in any given reporting period.

L'azurde Group's failure to manage the market and operational risks associated with L'azurde Group's international operations effectively would limit the future growth of L'azurde Group's business and would have a material adverse effect on its business, financial condition, results of operations or prospects.

#### **2.1.15 Ability to Provide Capital Requirements**

L'azurde Group needs to continue to make investments to support the growth of its business and may require additional funds to respond to business challenges, implement its growth strategy, increase market share in its current markets or expand into other markets, or broaden its product offering. Accordingly, L'azurde Group may require additional investments of capital and its existing sources of cash and any funds generated from operations may not provide it with sufficient capital. Total short-term borrowings, including gold loans, amounted to around SAR 1.0 billion and SAR 1.1 billion as at 31 December 2014G and 2015G, respectively, representing 91% and 87% of its total liabilities for the same periods. For various reasons, including any non-compliance with existing or future lending arrangements, including the gold loan agreements, additional financing or gold loans may not be available when needed, or may not be available on terms favourable to L'azurde Group, if at all. If L'azurde Group fails to obtain adequate capital or gold loans on a timely basis or on terms satisfactory to L'azurde Group, this will affect the Group's ability to sustain its operations or achieve its planned rate of growth, which would have a material adverse effect on its business, financial condition, results of operations or prospects.

#### **2.1.16 Client Credit Risk**

Credit risk is the risk of financial loss due to the non-fulfilment of the obligations of L'azurde Group's wholesale customers. L'azurde Group's credit risk is mainly related to its trade accounts receivable. Accounts receivable amounted to around SAR 279.79 million and SAR 389.9 million as at 31 December 2014G and 2015G, respectively, representing 17.1% and 22.10% of L'azurde Group's total assets for the same periods. L'azurde Group does not generally require collateral in support of its trade receivables. There can be no assurance that L'azurde Group may be able to evaluate the current financial condition of its wholesale customers and accurately determine the ability of such parties to fulfil their relevant financial obligations. Many of L'azurde Group's wholesale customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. The combination of lower cash flow of L'azurde Group's wholesale customers and the lack of available debt or equity financing may result in a significant reduction in L'azurde Group's wholesale customers' liquidity and ability to pay or otherwise perform their obligations to L'azurde Group. Furthermore, some of L'azurde Group's wholesale customers may be highly leveraged and subject to their own operating and regulatory risks, which increases the risk that they may default on their obligations to L'azurde Group. The inability or failure of L'azurde Group's significant wholesale customers to meet their obligations to L'azurde Group or their insolvency or liquidation would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.



### **2.1.17 Reliance on Senior Management and Key Personnel**

L'azurde Group's success depends upon the continued service and performance of its senior management and other key personnel, including product managers, jewellery designers and key craftsmen, as well as its ability to identify, hire, develop, motivate and retain qualified personnel in the future. In particular, L'azurde Group relies on certain key individuals who have valuable experience with its products and industry and who have made substantial contributions to the development of its operations. Competition for senior management and key employees in the jewellery industry is intense and L'azurde Group cannot guarantee that it will be able to retain its personnel or attract new, qualified personnel.

L'azurde Group may need to invest significant financial and human resources to attract and retain new employees. The loss of the services of members of L'azurde Group's senior management or key employees could prevent or delay the implementation and completion of its strategic objectives, divert management's attention to seeking certain qualified replacements or adversely affect its ability to manage its business effectively. Each member of senior management, as well as key employees, may resign at any time. If L'azurde Group loses the ability to hire and retain key executives and employees with high levels of skills in appropriate domains (such as product development and sales), it would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

### **2.1.18 Risk Associated with Employee Misconduct and/or Errors**

Employee misconduct and/or errors could result in violation of law by L'azurde Group, regulatory sanctions, financial liability and/or serious damage of reputation to L'azurde Group. Such misconduct and/or errors may include:

- theft of L'azurde Group's products from inventory or during shipment;
- concealment of unauthorised or unsuccessful activities;
- engagement in misrepresentation or fraudulent, deceptive or otherwise improper activities while marketing or selling L'azurde Group's products to wholesale customers; or
- disregard for applicable laws or internal controls and procedures, including failure to document transactions properly in accordance with L'azurde Group's standardised documentation and processes (or a failure to take appropriate legal advice in relation to non-standard documentation, as required by L'azurde Group's internal policies) or to obtain proper internal authorisation.

There can be no assurance that L'azurde Group will be able to deter employee misconduct and/or errors, as the measures taken to prevent and detect these activities may not be effective and adequate in all cases. L'azurde Group, therefore, cannot guarantee that employee misconduct and/or errors will not materially and adversely affect its business, financial condition, results of operations or prospects.

### **2.1.19 Reliance on Information Technology Infrastructure**

The efficient operation of L'azurde Group's business is dependent on L'azurde Group's information technology ("IT") system. It is based on the BaaN (Enterprise Resources Planning "ERP") System and it incorporates all the major business modules, including, but not limited to, accounting, sales and order, procurement, human resources and payroll, manufacturing, etc. L'azurde Group's IT system is an essential component of its business and growth strategies. L'azurde Group relies on its IT system and databases to manage numerous aspects of its business and to provide analytical information to management. L'azurde Group's IT system allows it to, among other things, provide procurement and logistic services, designing, manufacturing, marketing and distributing its products, as well as processing transactions, managing inventory and accounting for and reporting its results. Accordingly, L'azurde Group relies upon the capacity, reliability and security of its IT hardware and software infrastructure and its ability to expand and update this infrastructure in response to its changing needs.

L'azurde Group's IT system is exposed to damages from computer viruses, natural disasters, incursions by intruders or hackers, failures in hardware or software, power fluctuations, cyber terrorists and other similar disruptions. If L'azurde Group's IT system fails to perform as anticipated for any reason or there is any significant breach of security, this will disrupt its business and result in numerous adverse consequences, including reduced effectiveness and efficiency of operations, inappropriate disclosure of confidential or proprietary information, increased overhead costs and loss of important information, which would have a material adverse effect on its business, financial condition, results of operations or prospects. Additionally, L'azurde Group's increased use and reliance on web-based hosted (i.e., cloud computing) applications and systems for the storage, processing and transmission of information could expose L'azurde Group, its employees and its customers to a risk of loss or misuse of such information. L'azurde Group may be required to incur significant costs to protect against damage caused by these disruptions or security

breaches in the future and L'azurde Group's business activities would be materially disrupted and its internal controls compromised if there were a partial or complete failure of any member of L'azurde Group's IT systems or communications networks, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

### **2.1.20 Adequacy of Insurance Coverage**

L'azurde Group maintains different types of insurance policies to cover its operations, including public liability, property damage, crime insurance (such as theft and other criminal damage), political risks, civil unrest, third party general liability and personal accident insurance. The Company cannot provide any assurance that the insurance coverage would be sufficient in all cases, or covers all the risks that L'azurde Group would be exposed to. Uninsured losses may occur, or their amount may exceed the insurance coverage. In addition, L'azurde Group's insurance policies include exceptions or limitations to coverage under which certain types of loss, damage and liability are not covered by the insurance. In these cases, it could incur losses that could have an adverse effect on its business and results of operations. In addition, there can be no assurance that L'azurde Group will continue to be able to renew its existing levels of coverage on commercially acceptable terms, or at all. Lack or the unavailability of adequate insurance for the various areas at its business would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects. For further details on insurance policies, please see Section 12.7 ("Insurance Policies").

### **2.1.21 Litigation**

L'azurde Group may become involved in lawsuits and regulatory actions, related to the business framework where it operates, with several parties including clients, partners in its affiliates, suppliers, employees, regulatory authorities, or owners of properties leased to L'azurde Group for its operations. The Group may also be the claimant in such lawsuits or litigations. Any unfavourable outcome in such litigation and regulatory proceedings would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects. In addition, regardless of the outcome of any litigation or regulatory proceedings, these proceedings could result in substantial costs and may require that L'azurde Group devote substantial resources to defend against these claims, which would have a material adverse effect on L'azurde Group's business, financial condition, and results of operations or prospects. For further details on litigation, please see Section 12.12 ("Litigation").

### **2.1.22 Protection of Intellectual Property Rights**

The Company and its Subsidiaries have registered a number of trademarks on which they rely as a brand for their respective businesses. As at the date of this Prospectus, the "L'azurde" trademark and certain other trademarks derived from the "L'azurde" brand have been registered in 54 countries (for further details, please see Section 12.11.1 ("Trademarks")). The competitive position of L'azurde Group depends on its ability to continue using such trademarks and to protect its rights related to such trademarks against any illegal use of such trademarks by third parties. If L'azurde Group is forced to defend its trademarks, it may face costly litigation and diversion of technical and management personnel. Furthermore, the outcome of a dispute may be that L'azurde Group would need to enter into royalty or licensing agreements, which may not be available on terms acceptable to L'azurde Group, or at all. Any of the above would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

### **2.1.23 Potential Tax and Zakat Liability**

OroEgypt was corporate tax-exempt from 1 January 2005G until 31 December 2014G and L'azurde Egypt is corporate tax-exempt from 1 January 2009G until 31 December 2018G. Therefore, OroEgypt and L'azurde Egypt will have to start paying corporate tax starting in 2015G and 2019G, respectively. In addition, surtax was introduced in Egypt in the financial year 2014G applicable to companies with taxable profits of more than EGP 1 million (equivalent to SAR 478,911). The Egyptian Tax Authority trend is to apply the surtax on exempted entities as well, resulting in an additional tax liability for OroEgypt of 5% on taxable profits above EGP 1 million (equivalent to SAR 478,911), unless the Egyptian Tax Authority amends the corporate tax pool. In addition to that, L'azurde Group intends to concentrate most of its operations and future expansions into L'azurde Egypt, a tax-exempt entity until the end of 2018G, which would adversely affect the profit in the non-exempt entity, OroEgypt, and, consequently, L'azurde Group's business, financial condition, results of operations or prospects. For further details on the concentration of operation and expansion plan of L'azurde Egypt please see Section 4.3.2.7 ("OroEgypt Company for Manufacturing Precious Metals").

Moreover, there are differences between the audited financial statements and management accounts for OroEgypt and L'azurde Egypt in 2013G only. Most of these differences in 2013G were due to applying the Egyptian tax and accounting policies in preparing the statutory audited financial statements of L'azurde Group's Egyptian subsidiaries, which differ from SOCPA. The reasons leading to the differences was that L'azurde Group incurs on each of OroEgypt and L'azurde Egypt their share of Zakat expense, which is accounted for in its management accounts but not their audited financial statements for 2013G as they were unable to do so due to accounting and tax standard in Egypt. Furthermore, the differences between the audited financial statements and management accounts were a result of the differences in depreciation rates, loan interest and head office expenses incurred on L'azurde Egypt. Starting in 2014G, those differences ceased to exist as L'azurde Group streamlined its Egyptian subsidiaries' financial statements with SOCPA, and will continue to do so wherever appropriate, to depend on it while preparing the consolidated audited financial statements for L'azurde Group with continuous valuation of tax difference and specify the necessary provisions. Streamlining with SOCPA required making several adjustments to the balance sheet of OroEgypt and L'azurde Egypt for the year 2014G such that Ernst and Young was hired to prepare the reviewed financial statements made for specific line items in 2013G and 2014G. This is to ensure the accuracy of management accounts related to those companies. The Egyptian Tax Authority could view these adjustments as additional tax-triggering events.

The Company also pays Zakat on behalf of its Shareholders and it has submitted and paid Zakat returns on due times. The Company received a letter from the Department of Zakat and Income Tax requesting it to provide information relating to the years from 2006G until 2014G. The Company met this request on 21 January 2016G. The Company obtained final certificates for all the years up to 2014G as well as a Zakat certificate restricted for 2015G. There is still a risk that the DZIT can go back to any historical year and challenge the submitted returns and impose an assessment on the Company and request it to pay additional Zakat liabilities, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

#### **2.1.24 Newly Implemented Corporate Governance Rules**

The General Assembly of Shareholders has adopted an internal corporate governance manual as at 2/1/1437H (corresponding to 15/10/2015G). Such manual includes rules and procedures related to corporate governance derived from the Corporate Governance Regulations issued by CMA. The Company's success in proper implementation of corporate governance rules and procedures will depend on the extent of comprehension and understanding of these rules and proper execution of such rules and procedures by the Board of Directors, its committees and senior executives, especially with regards to formation related to the board and its committees thereof, independence requirements, rules related to conflict of interests and related parties' transactions. Failure to comply with the governance rules, especially the mandatory rules that have derived from the Corporate Governance Regulations issued by CMA, would subject the Company to regulatory penalties and would have a material adverse effect on the Group's operations, financial position, results of operations and prospects.

#### **2.1.25 Formation of Board Committees**

The Board of Directors recommended adopting an internal corporate governance manual, which was approved by the Shareholders' General Assembly on 2/1/1437H (corresponding to 15/10/ 2015G). In addition, in 2011G, the Board of Directors formed the Audit Committee and the Nomination and Remuneration Committee to carry out the tasks specific to each committee in accordance with the internal corporate governance manual (for further details, please see Section 5.2 ("Board of Directors Committees")). Any failure by members of these committees to perform their duties and adopt a work approach that ensures protection of the interest of the Company and its Shareholders, may affect corporate governance compliance, the continuous disclosure requirements issued by CMA and the Board of Directors' ability to monitor L'azurde Group's business through these committees, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

#### **2.1.26 Lack of Experience in Managing a Publicly Listed Company**

Since its incorporation, the Company has been operated as a private company and, accordingly, the senior executives have limited or no experience in managing a public joint stock company and complying with the laws and regulations pertaining to such companies. In particular, the senior executives should exert additional efforts to ensure the Company's compliance with the relevant laws, regulations and disclosure requirements, which may decrease the time they dedicate to the management of L'azurde Group. This would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects. Failure to comply with laws, regulations and related disclosure requirements shall subject the Company to regulatory penalties and fines that will have a material adverse effect on the Group's operations, financial position, results of operations and prospects

## 2.2 Risks Relating to the Market, Industry and Regulatory Environment

### 2.2.1 Economic Considerations

The general worldwide economy has experienced downturns, at various times over the past several years, due to the lack of available credit, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased end-consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. The jewellery industry is a cyclical one that is heavily dependent upon the overall level of end-consumer spending and the price of gold, diamonds and precious stones. Purchases of jewellery and related fashion goods tend to be highly correlated with economic cycles, gold and diamond prices, and the disposable income of the end-consumers. L'azurde Group's wholesale customers may anticipate and respond to falling end-consumer confidence due to adverse changes in economic conditions (or perception of such deterioration) and uncertainties by reducing inventory and cancelling orders. As a result, any substantial deterioration in general economic conditions, decreases of employment wages, availability of end-consumer credit, increases in interest and tax rates, acts of war, terrorism or political events that diminish end-consumer spending and confidence in any of the geographical areas in which L'azurde Group operates would materially adversely affect: (i) demand for its current and future products; and (ii) its ability to commercialise products. In addition, certain competitors may react to such conditions by reducing retail prices and promoting such reductions. L'azurde Group cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery worldwide. Any economic slowdown would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

Moreover, L'azurde Group's business is affected by the general economic conditions prevailing in or affecting the Kingdom and, in particular, by the level of economic activity in the Kingdom. The oil sector still constitutes a large share of the GDP of the Kingdom. Fluctuations in oil prices may occur, and adversely affect the Kingdom's economy. The Kingdom is also facing the challenge of relatively high levels of population growth and unemployment amongst the Saudi youth. All such conditions could have an adverse effect on the Saudi Arabian economy, which in turn would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

### 2.2.2 Political Instability and Security Concerns in the MENA Region

L'azurde Group's assets, presence, wholesale customer and end-consumer base are primarily situated in the Kingdom, Egypt and other MENA region countries. L'azurde Group's revenue from the operations in the Kingdom, Egypt and other MENA region countries represented 45%, 45% and 10% respectively, of L'azurde Group's total revenue in the year ended 31 December 2014G, and represented 47%, 42% and 10%, respectively, of L'azurde Group's total revenue in the year ended 31 December 2015G.

The MENA region is subject to a number of geopolitical and security risks. Beginning in the first half of 2011G, a number of countries in the MENA region have witnessed serious internal unrest ranging from public demonstrations to, in certain cases, armed conflict, foreign military intervention and a change of government. As at the date of this Prospectus, armed conflicts are ongoing in several countries in the MENA region.

As the political, economic and social environments in the MENA region remain subject to continuing developments, investments in the MENA region are characterised by a significant degree of uncertainty. Any unexpected changes in the political, social, economic or other conditions in countries within the MENA region would have a material adverse effect on the manufacturing capabilities of L'azurde Group, sales to wholesale customers or end-consumers in such regions and investments that L'azurde Group has made or may make in the future, which in turn would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

### 2.2.3 Increase of Competition

The wholesale jewellery industry in the Kingdom, Egypt and other MENA region countries is intensely competitive, and L'azurde Group expects such competition to increase and intensify in the future. L'azurde Group is facing a variety of competitive challenges that include:

- anticipating and quickly responding to changing end-consumer demands;
- developing high style, high quality jewellery products in sizes and types that appeal to end-consumers of varying age groups, disposable income and tastes;
- competitively pricing its lines of jewellery products and achieving end-consumer perception of value for its brand; and
- providing strong and effective marketing support and incentives to its wholesale customers reselling its jewellery to end-consumers.

L'azurde Group is competing with a number of local and specialised players who seek to respond to local tastes and trends, including in the affordable luxury segment. Increased competition may result in price pressure, reduced gross margins and loss of market share. L'azurde Group's inability to meet these competitive challenges would harm its wholesale customer relationships and negatively impact end-consumer confidence in its brand. These competitive forces could also force L'azurde Group to make price concessions or otherwise reduce prices for L'azurde Group's products. If L'azurde Group is unable to maintain its competitiveness, L'azurde Group's market share, revenue, and profits would decline, adversely affecting its business, financial condition, results of operations or prospects.

#### **2.2.4 Size of Online Jewellery Business**

L'azurde Group's business relies on end-consumers going to the retail outlets operated by L'azurde Group or L'azurde Group's wholesale customers operating retail outlets to purchase the products they need. L'azurde Group's products are not currently sold through online shopping platforms. Although in 2015G, online sales represented, pursuant to a report prepared by the Market Studies Consultant, 1.4% of the total jewellery sales in the UAE (no comparable data are available for the Kingdom and Egypt) and even in markets with higher penetration of online jewellery shopping platforms, such as the United Kingdom or the USA, they only represented 2.2% and 12.6%, respectively, and despite historical concerns of end-consumers about buying expensive products without a physical storefront, faceto face interaction with sales personnel and the ability to physically handle and examine products, the retail jewellery market could witness a change in how end-consumers shop in the future, with online shopping transactions growing at a larger scale, as has occurred for other consumer goods segments. A sudden large scale end-consumer acceptance of online jewellery retailing could cause L'azurde Group to lose its market share, and would have a material adverse effect on its business, financial condition, results of operations or prospects.

#### **2.2.5 Risk of Changes in the Regulatory Environment**

L'azurde Group's business is subject to numerous regulations in the Kingdom and in other jurisdictions in which it operates, including customs and international trade laws, export/import control laws, boycott laws and associated regulations. These laws and regulations limit the countries, the persons, the products and the terms under which L'azurde Group can do business, including anti-dumping restrictions. On the other hand, there are currently customs duties on jewellery products imports into the Kingdom at 5% and into Egypt at 10% of import cost. Any change in these regulations or rates would influence the flow of jewellery products into and from these countries. In particular, if customs duties in the Kingdom and in Egypt were reduced, the imports of competitors' jewellery products into these countries could increase, which in turn would impact L'azurde Group's sales in these countries negatively and would have a material adverse effect on its business, financial condition, results of operations or prospects. In addition, L'azurde Group is subject to antitrust, environmental and occupancy laws that regulate manufacturers generally and/or govern the importation, promotion and sale of L'azurde Group's products, the operation of factories and warehouse facilities and L'azurde Group's relationship with its wholesale customers, suppliers and competitors. If any of these laws or regulations were to change or were violated by L'azurde Group's management, employees, suppliers, agents or trading partners, the costs of certain of L'azurde Group's products would increase, or L'azurde Group could experience delays in shipments of its products, be subject to fines or penalties, or suffer reputational harm, which would reduce the competitive position and/or demand for L'azurde Group's products and would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

Moreover, legal requirements are frequently changed and subject to interpretation, and L'azurde Group is unable to predict the ultimate cost of compliance with these requirements or their effects on L'azurde Group's operations. L'azurde Group may be required to make significant expenditures or modify its business practices to comply with existing or future laws and regulations, which would increase L'azurde Group's costs and materially limit its ability to operate its business, which in turn would have a material adverse effect on its business, financial condition, results of operations or prospects.

#### **2.2.6 Issuance of the New Companies Regulations**

The Company and its Saudi affiliates are governed by the Companies Regulations, in terms of management, business conduct and activities. The Government recently released new Companies Regulations to replace the current regulations, which will enter into force in 25/7/1437H (corresponding to 2/5/2016G). The new regulations impose some new regulatory requirements that must be complied with by the Company and its Saudi affiliates. This entails the Company and its Saudi affiliates to take the necessary actions to meet such requirements. The new Companies law also imposed even more strict sanctions for violations against its applicable provisions and rules. Accordingly, the Company and its Saudi affiliates may be subject to such penalties in case of failure to comply with such provisions and



rules, which might have a material adverse effect on the Group's operations, financial position, results of operations and prospects.

## **2.2.7 Changes in Product Prices for Energy, Electricity, Water and Related Services**

The Saudi Council of Ministers recently issued a resolution to raise energy prices (including fuel) and electricity, water and using sanitation services tariffs for residential, commercial and industrial sectors, as part of the Kingdom's policies aimed at promoting government subsidy. This is expected to have an impact on L'azurde Group's annual operation results with an increase in operating expenses of SAR 700 thousand (representing 0.2% of total expected operating expenses). This impact shall be reflected as at the financial year 2016G. Such price increase, as well as any other potential increases, may lead to a decrease in discretionary spending or income available to end-users. Consequently, demand for diamond and gold jewellery within the Kingdom and purchase orders from wholesale clients may be negatively impacted and production costs will be higher, which will have a material adverse effect on the Group's operations, financial position, results of operations and prospects.

## **2.2.8 Risk Associated with Licenses and Approvals**

In order to carry out and expand its business, L'azurde Group needs to maintain or obtain a variety of licences, certificates, permits and approvals from regulatory, legal, administrative, tax, Zakat and other authorities and agencies, both in the Kingdom and in other jurisdictions in which L'azurde Group maintains a presence. The processes for obtaining these licences, certificates, permits and approvals are often lengthy and most of the licences, certificates, permits and approvals are subject to conditions under which the licences, certificates, permits and approvals can be suspended or terminated if the licensee fails to comply with certain requirements. Furthermore, when renewing or modifying the scope of a licence, certificate or permit, there is no guarantee that the relevant authority will renew or modify the licence, certificate or permit and that it shall not impose conditions that will adversely affect L'azurde Group's performance, if it did renew or modify the licence, certificate or permit. If L'azurde Group is unable to maintain or obtain the relevant permits and approvals, its ability to achieve its strategic objectives would be impaired, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

## **2.2.9 Compliance with Saudisation Requirements**

Compliance with Saudisation requirements is a local regulatory requirement necessitating that all companies active in the Kingdom, including the Company, employ and maintain a certain ratio of Saudi personnel among their staff. The percentage of Saudi workers varies on the basis of the company's activity. The Company has been classified under the "medium green" category, which means that the Company complies with the current Saudisation requirements, which accordingly allow the compliant companies to secure work visas. As at 31 December 2015G, 16.03% of permanent employees of the Company were Saudi nationals. The Company has obtained the relevant certificate to this effect from the Ministry of Labour. It is possible that the Ministry of Labour will decide to impose stricter Saudisation policies in the future.

There are no guarantees that the Company will be able to fulfil future Saudisation requirements and/or that the minimum wage required to be paid by the Company will not increase. In case of non-compliance with the Saudisation requirements, the Company would face sanctions by governmental authorities, such as suspension of work visa requests and of transfers of sponsorship for non-Saudi employees, and it may be difficult for the Company to continue to recruit or maintain the employment of the required percentage of Saudisation. In addition, there can be no assurance that the Company will be able to provide the required workforce or recruit the required number of Saudi nationals and/or foreign workers without incurring additional costs, if at all, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects. For further details, please see Section 5.7.2 ("Saudization").

## **2.3 Risks Related to the Offer Shares**

### **2.3.1 Effective control post-Offering by L'azurde Holding**

Following the Offering, L'azurde Holding will own approximately 70% of the Company's issued Shares. As a result, L'azurde Holding, acting individually or with other Shareholders, will have the ability to significantly influence the Company's business through their ability to control decisions and actions that require Shareholders' approval, including, without limitation, the election of directors, significant corporate transactions, dividend distributions and capital adjustments. If circumstances were to arise

where the interests of L'azurde Holding conflicted with the interests of minority Shareholders (including the Subscribers), the minority Shareholders might be disadvantaged and L'azurde Holding might otherwise exercise its control over the Company in a manner that would materially adversely affect the Company's business, financial condition, results of operations or prospects.

### **2.3.2 Absence of a Prior Market for the Shares**

There is currently no public market for the Company's Shares, and there can be no assurance that an active and liquid market for the Shares will develop or be sustained after the Offering. If an active and liquid market is not developed or maintained, the price of the Shares would be adversely affected.

### **2.3.3 Sale of a Substantial Number of the Shares in the Market Following the Completion of the Offering**

Sales of a substantial number of the Shares in the market following the completion of the Offering, or the perception that these sales will occur, could adversely affect the market price of the Shares. Upon the completion of the Offering, L'azurde Holding will be subject to a lock up period from the date on which trading of the Shares commences on the Stock Exchange, during which it may not dispose of any of its own Shares. Following the completion of the Offering, Gulf Growth Gold Holding will beneficially own 38.84% of Shares, Eastgate MENA SPV 5 Holding Company will beneficially own 12.33% of Shares, and Fidelity Invest Owned by The National Investor PJS – One Man Company LLC will beneficially own 3.08% of Shares. Following the expiration of the lock up period, and after CMA's approval, the Consortium members are expected to gradually sell all or part of their Shares, for which they are indirect beneficial owners through L'azurde Holding, in markets, to a new investor or in any other way.

In case L'azurde Holding sells a substantial number of Shares following the expiry of the lock up period, this may have a negative impact on the Share price in the market.

### **2.3.4 Issuance of New Shares**

If the Company decides to issue new shares in the future, this may adversely affect the share price in the market or dilute the Shareholders' ownership in the Company if they did not subscribe for the new shares.

### **2.3.5 Fluctuation in the Market Price of the Shares**

There can be no guarantee that the Offer Price will be equal to the price at which the Shares will be traded following completion of the Offering and the Subscribers may not be able to resell the Offer Shares at the Offer Price or above, or may not be able to sell them at all. The price of Shares may be negatively affected by various factors, including L'azurde Group's performance and results of anticipated operations, changes in earning estimates or forecasts, market conditions in its industry, the general situation of the Saudi economy, changes in laws and regulations and stock market price fluctuations. This would adversely affect the market price of the Shares, accordingly, and the investments of the Company subscribers.

### **2.3.6 Distribution of Dividends**

Future distribution of dividends will depend on several factors: amongst other things, future earnings, financial condition, cash flows, working capital requirements, capital expenditures and distributable reserves of the Company. In addition to other factors, the Company may not be able to pay dividends, the Board of Directors may not recommend and the Shareholders may not approve the payment of dividends. Additionally, the Company may be restricted by the terms of its future credit financing agreements to make dividend payments. The Company may incur expenses or liabilities that would reduce or eliminate the cash available for distribution of dividends. If the Company does not pay dividends on the Shares, Shareholders may not receive any return on investment in the Shares unless they sell the Shares at a price higher than the price at the time of purchase. The Company cannot give an assurance that it will be able to pay dividends or that its Board of Directors will recommend or its Shareholders will approve the payment of dividends. For further details regarding the dividends policy of the Company, please see Section 7 ("Dividend Distribution Policy").



### 3. Market Overview

The information in this section ("Market Overview") is derived from the report prepared by the Market Consultant (Roland Berger Strategy Consultants Middle East W.L.L.) exclusively for the Company. The Market Consultant provides advisory services to major international companies from different industries as well as public institutions. The Market Consultant operates in several fields and sectors and is located in Manama, Kingdom of Bahrain. The parent company of the Market Consultant, Roland Berger Strategy Consultants GmbH, was established in 1967G and is headquartered in Munich, Germany. Roland Berger Strategy Consultants GmbH and its group of subsidiaries currently employ more than 2,000 staff members. For more information about the Market consultant, visit the website ([www.Rolandberger.com](http://www.Rolandberger.com)).

The Market Consultant does not, nor do any of its subsidiaries, sister companies, partner, shareholders, directors, managers or their relatives, own any shares or any interest of any kind in the Company or its subsidiaries. The Market Consultant has given, and not withdrawn as at the date of this Prospectus, its written consent for the use of its name, market information, and data supplied by it to the Company in the manner and format set out in this Prospectus

The Board of the Company believes that information and data contained in this Prospectus from other resources, including those provided by the Market Consultant on 15 February 2016G, are reliable. However, neither the Company nor any of its Board of Directors or managers, selling shareholders or other consultants have verified or checked the accuracy or completeness of the information contained in this section, and neither of them shall bear any responsibility for such information.

#### 3.1 Jewellery Market in the Kingdom

##### 3.1.1 Macro-Economic Overview

In recent years, the Kingdom has witnessed a strong surge in economic activity, fuelled by healthy GDP growth and a rapidly growing population. This has led to rising wealth levels and disposable income levels per capita, as well as an increase in urbanisation across the Kingdom. As a result, retail activity in the Kingdom grew significantly at a compound annual growth rate of 8.8% from SAR 360.5 billion in 2012G to SAR 426.5 billion in 2014G. The development of the overall retail sector in the Kingdom was also reflected in the jewellery market, given its high reliance on disposable income and discretionary spending.

Underpinning the development of the jewellery market in the Kingdom has been a number of key economic, demographic and social factors. These are outlined in the following section.

##### 3.1.1.1 Economic

The Kingdom has enjoyed robust economic growth over recent years. Oil revenues and increased government spending over the past five years have helped boost the real GDP at a compound annual growth rate of approximately 5%. Moreover, real GDP per capita has steadily increased from SAR 80,000 in 2012G to SAR 81,000 in 2014G, thereby positively impacting consumer disposable income levels. In addition, decreasing inflation rates, standing at 2.7% in 2014G, are expected to further boost the purchasing power of consumers across the Kingdom. The following table summarises the macro-economic indicators in the Kingdom in 2012G-2014G:

**Table 3.1: Macro-Economic Indicators in the Kingdom in 2012G-2014G**

|                                | 2012G | 2013G | 2014G |
|--------------------------------|-------|-------|-------|
| Real GDP (SAR billion)         | 2,289 | 2,350 | 2,432 |
| Real GDP per capita (SAR '000) | 80    | 80    | 81    |
| Inflation (%)                  | 4.5%  | 3.5%  | 2.7%  |

Source: Market Consultant report

Real disposable income per household in the Kingdom reflects the Kingdom's healthy economic conditions, as it has been growing at a compound annual growth rate of 2% over the last 10 years. During the economic crisis in 2009G-2011G, real disposable income steadied and showed resilience (growing at 0.6% per year). Thereafter, it continued to grow at a faster rate (5.3% per annum as at 2011G).

Current income levels in the Kingdom ensure that basic needs are met, thereby ensuring that every additional riyal of income is more likely to be put towards discretionary expenditure (e.g. retail and jewellery consumption). The following table summarises real disposable income per household in the Kingdom in 2012G to 2015G:

**Table 3.2: Real Disposable Income per Household in the Kingdom in 2012G-2015G**

|   | 2012G | 2013G | 2014G | 2015G |
|---|-------|-------|-------|-------|
| Real disposable income per household (SAR '000) | 179.0 | 181.9 | 189.2 | 197.0 |

Source: Market Consultant report

In parallel to the development of the Kingdom's headline indicators, the continuous stream of Hajj pilgrims provides a consistent source of foreign expenditure in the Kingdom. Hajj tourism plays a vital role in the Kingdom's economy; even with a decrease of inbound Hajj pilgrims over the past 10 years from 1.55 million in 2005G to 1.38 million in 2014G, international inbound tourism expenditure tripled from SAR 20 billion to SAR 60 billion over the same period.

Even though 2013G witnessed a drop in the total number of Hajj pilgrims due to temporary construction work and fears of a MERS outbreak, the yearly number of Hajj pilgrims is expected to grow going forward. This is largely due to the current construction work which aims to increase the respective capacities of the holy sites.

Saudi Arabian retail businesses benefit from the strong seasonal tourism during Hajj and Umrah, particularly in the holy cities of Makkah and Madinah. In addition to positively impacting the overall retail sector, religious tourists typically purchase small gift items for relatives, including souvenir jewellery pieces. The following table summarises the number of international inbound Hajj pilgrims and total Hajj expenditures in the Kingdom in 2012G-2015G:

**Table 3.3: Number of Inbound Hajj Pilgrims and the Inbound Tourism expenditure in the Kingdom in 2012G-2015G**

|   | 2012G | 2013G | 2014G | 2015G       |
|---|-------|-------|-------|-------------|
| International inbound Hajj pilgrims ('000)              | 1,752 | 1,379 | 1,389 | 1,385       |
| International inbound tourism expenditure (SAR billion) | 60.0  | 58.0  | 60.0  | Unavailable |

Source: Market Consultant report

The overall growth in the Saudi Arabian economy, driven by government spending, has led to a healthy increase in the purchasing power of the average Saudi Arabian consumer. An increase in purchasing power creates favourable conditions for growth in the retail market in general, as well as in discretionary spending (e.g. on jewellery items).

### 3.1.1.2 Demographic

The Kingdom's population has increased from 28.7 million in 2012G to 30.5 million in 2015G at a compound annual growth rate of around 2.2%.

Furthermore, the Kingdom has a relatively young population with approximately 72% under the age of 40 years. The large and increasing proportion of young adults in the population coupled with growing disposable income is expected to boost modern retail and demand for non-traditional jewellery. The following table sets out the Kingdom's population breakdown by age in 2012G-2015G:

**Table 3.4: The Kingdom's Population Breakdown by Age in 2012G-2015G**

|                              | 2012G | 2013G | 2014G | 2015G |
|------------------------------|-------|-------|-------|-------|
| 0-19 years (million)         | 11.0  | 11.0  | 11.1  | 11.5  |
| 20-39 years (million)        | 11.0  | 11.0  | 11.4  | 10.8  |
| 40+ years (million)          | 7.0   | 7.0   | 7.5   | 8.7   |
| Total (million)              | 29.0  | 29.0  | 30.0  | 31.0  |
| Year-on-year growth rate (%) | 2.2 % | 2.1 % | 2.1 % | 2.1%  |
| Percentage of total          |       |       |       |       |
| 0-19 years (%)               | 38.0% | 38.0% | 37.0% | 37.0% |
| 20-39 years (%)              | 38.0% | 38.0% | 38.0% | 35.0% |
| 40+ years (%)                | 24.0% | 24.0% | 25.0% | 28.0% |
| Total (%)                    | 100%  | 100%  | 100%  | 100%  |

Source: Market Consultant report

If the current healthy population growth rates are maintained, the Saudi Arabian retail market will enjoy steady growth as demand for modern consumer goods (including jewellery) will naturally increase.

### 3.1.1.3 Social

Alongside economic and demographic development in the Kingdom, several social factors have influenced the development of the retail and jewellery markets. These factors, including increasing marriage rates, urbanisation rates, consumer expenditure levels and female employment rates, have impacted consumer buying behaviour and driven demand for jewellery in the Saudi Arabian market.

#### A) Marriages

Marriages are considered an important driver of jewellery demand, as the traditional wedding gift from a groom to his bride in the Kingdom is gold and diamond jewellery. In particular, demand for gold and diamond jewellery sets (comprising a ring, necklace, bracelet and earrings) is typically driven by the number of marriages due to the historic cultural attachment to the gifting of marriage sets in Saudi Arabian weddings.

The total number of marriages has been increasing at a compounded annual rate of 4.6% over the past ten years, growing from 107.3 thousand marriages in 2005G to 168.3 thousand marriages in 2015G. This has outpaced population growth (2.2%) due to the high number of young adults entering marriage age. Moreover, marriage rates per 1,000 population have grown from 5.4 marriages in 2012G to 5.5 marriages in 2015G.

#### B) Urbanisation

The movement of the Saudi Arabian population towards its major cities (e.g. Riyadh, Jeddah, Dammam and Makkah) has led to a rise in urbanisation levels. Urbanisation leads to a new shift in expenditure patterns due to higher average disposable income in urban areas, larger exposure to branded products in urban areas and more emotional spending as luxury consumption represents middle-class aspirations.

Urban households in the Kingdom grew from approximately 4.9 million in 2012G (85.3% of total households) to approximately 5.1 million in 2015G (85.5% of total households), thus registering a yearly increase of around 2.4%.

#### C) Consumer Expenditure

Consumer expenditure particularly on high-end goods and branded products is currently at an all-time high. Specifically, consumer expenditure on jewellery, silver and watches is one of the fastest growing segments in the Saudi Arabian market, outpacing total consumer expenditure which grew by 7% between 2005G and 2015G, while consumer expenditure on jewellery, silver and watches grew by 11%. In addition the penetration of jewellery, silver and watches as a percentage of total consumer expenditure rose to 3.9% in 2015G versus 2.6% in 2005G, signalling a long-term trend of increasing jewellery purchases.

Growing consumer expenditure coupled with a growing appetite for high-end goods provides an optimistic outlook for the jewellery retail and wholesale market in the Kingdom, as consumers exhibit a willingness to spend their increasing wealth on jewellery and other high-end goods. The following table sets out the Kingdom's social statistics in 2012G-2015G:

**Table 3.5: The Kingdom's Social Statistics in 2012G-2015G**

|   | 2012G | 2013G | 2014G | 2015G |
|---|-------|-------|-------|-------|
| Annual marriages ('000)   | 157.7 | 162.0 | 169.2 | 168.3 |
| Urban households (% of total households)  | 85.3  | 85.6  | 85.8  | 85.6% |
| Marriage rate (per '000 population)   | 5.4   | 5.4   | 5.5   | 5.5   |
| Total consumer expenditure (SAR billion)  | 780.0 | 805.4 | 851.4 | 906.8 |
| Consumer expenditure on jewellery, silver and watches (SAR billion)                                   | 28.2  | 29.9  | 32.4  | 35.4  |
| Consumer expenditure on jewellery, silver and watches as percentage of total consumer expenditure (%) | 3.6%  | 3.7%  | 3.8%  | 3.90% |

Source: Market Consultant report

In terms of the regional breakdown of consumer expenditure, spending power remains predominantly concentrated in Riyadh, Makkah and the Eastern Province. Almost 65% of total consumer expenditure is concentrated in these three regions. Although consumer expenditure grew by 16% between 2012G and

2015G, the growth was still largely concentrated in the top three regions. The following table sets out the Kingdom's consumer expenditure breakdown in 2015G:

**Table 3.6: The Kingdom's Consumer Expenditure Breakdown by Region in 2015G**

| Region           | Consumer expenditure (SAR million) | Percentage of total |
|------------------|------------------------------------|---------------------|
| Riyadh           | 231,575                            | 26%                 |
| Makkah           | 205,700                            | 23%                 |
| Eastern Province | 128,099                            | 14%                 |
| Asir             | 67,036                             | 7%                  |
| Madinah          | 48,348                             | 5%                  |
| Jazan            | 31,942                             | 4%                  |
| Qasim            | 31,597                             | 3%                  |
| Tabuk            | 21,573                             | 2%                  |
| Al-Baha          | 16,775                             | 2%                  |
| Other            | 123,755                            | 14%                 |
| Total            | 906,400                            | 100%                |

Source: Market Consultant report

### Female Employment

Recent government initiatives have sought to encourage female participation across all sectors with the aim of reducing female unemployment. Thus, the female employment rate increased from 14.4% in 2009G to 17.3 % in 2015G.

Female participation in the Saudi Arabian workforce has been supported by various measures including:

- Enhancement of female public sector employment through initiatives to allocate and create jobs for women at national authorities.
- Changes in laws and looser regulation to open up industries for women and to enforce the employment of Saudi Arabian women (e.g. in cosmetic shops).
- Creation of industrial clusters and cities with women-run firms and production lines, which also offers training and other services.
- Provision of technical colleges and vocational institutes for women that train women for certain jobs and professions.
- Other services to support private sector employment including telecommuting arrangements with the private sector and the establishment of a recruiting company for Saudi Arabian women.
- Provision of women-only shops and services for female entrepreneurs.

This is expected to boost the annual disposable income per capita of the female population. The increased female spending power will strengthen the overall financial position of Saudi Arabian households and financially empower a key customer segment in the jewellery market. The following table sets out the Kingdom's female employment rate in 2012G-2015G:

**Table 3.7: The Kingdom's Female Employment Rate in 2012G-2015G**

|  | 2012G | 2013G | 2014G | 2015G |
|--|-------|-------|-------|-------|
| Female employment rate (% of females aged 16-64 years) | 16.1% | 16.1% | 16.5% | 17.3% |

Source: Market Consultant report

In conclusion, the Kingdom is becoming more modern and urban while enjoying strong economic growth. This has led to increased purchasing power and a growing retail market concentrated in the main urban areas. Within the retail market, jewellery is one of the fastest growing segments as consumers seek to spend their newfound wealth on jewellery and branded products.

## 3.1.2 Jewellery Industry Overview

### 3.1.2.1 Market Characteristics

The Saudi Arabian jewellery market is defined as comprising gold and diamond jewellery. It is characterised by five main attributes, outlined in the section below.

#### A) Socially and Culturally Significant

The Saudi Arabian population remains among the largest consumers of gold per capita, driven by a high cultural affinity to gold and its social significance in births, weddings, and other special events. Jewellery is of particular significance to females, serving as both a fashion accessory as well as a store of wealth. In addition, gold is perceived as a safe investment of wealth.

#### B) Traditionally Structured

Gold jewellery is still largely sold by weight across the Kingdom rather than by piece as is the custom in Western markets. Gold is primarily sold in traditional souks that are present in both the urbanised and rural regions and which have a high concentration of retailers operating in close proximity to one another. These retailers are mostly local businesses that are well-established (on either a local or national level) and that stock items from several manufacturers with limited branding. Additionally, traditional family retailers still play an important role in jewellery (especially diamonds), as they are perceived to be trustworthy and honest dealers.

#### C) Skill and Technology Driven

The Saudi Arabian gold and diamond jewellery industry consists of a small number of large manufacturers with relatively advanced design and fabrication facilities, as well as a long tail of smaller, family-owned 'workshops' with limited capabilities. Traditionally, skilled workers and craftsmen have been key assets for manufacturers, allowing them to differentiate their designs through the production of unique pieces of jewellery that are difficult to replicate. Today, large players are utilising advanced technologies to differentiate their products and ensure their uniqueness in a commoditised market. For example, L'azurde Group is today the only company applying the latest 3D printing manufacturing capabilities.

#### D) Volatile Market for Small Manufacturers

Unlike large players who are able to hedge gold consumption against gold price fluctuations (e.g. L'azurde Group), small manufacturers are exposed to significant financial pressure during periods of high gold prices. Small jewellery manufacturers and wholesalers that use basic manufacturing techniques have limited control over the gold content of produced jewellery, preventing them from producing lower-weight jewellery to preserve customer cash outlay and putting them more at risk. Conversely, during gold price troughs, previously dormant players are able to restore some of their capacity. However, high capital requirements and local labour regulations are making scalability increasingly difficult, forcing small players to lose market share as a result. This market volatility raises the barriers to entry for small players.

#### E) High Barrier to Entry

The Saudi Arabian jewellery market is characterised by its high barriers to entry for new entrants given the significant working capital requirements, brand-driven consumers, deep knowledge requirements of the local market and consumer tastes and increased competitiveness of selected players' technological capabilities. Moreover, the Kingdom's labour laws, especially Saudisation laws, create legal and administrative barriers for small players to scale up in the future.

### 3.1.2.2 Industry Value Chain

#### F) Sourcing

Gold in the Kingdom is primarily sourced from three channels:

- **Banks and commodity traders:** Banks represent the main source of gold for gold manufacturers. Gold sourced from banks and commodity traders in the form of ingots or gold bars is melted to be used in the production process.
- **Gold mines:** Ma'aden is the dominant gold mining company in the Kingdom with mining operations spread out across the Kingdom. Ma'aden's production levels in 2015G reached 5.2 tons.
- **Ore processing and scrap recovery:** Ore processing is mainly conducted by Ma'aden mining company. Scrap gold supply increases when gold prices surge, mainly because consumers look to make a profit from selling at higher prices.

Diamonds are imported from multiple sources including Belgium, India and South Africa. Typically, imported diamonds can be rough or polished. Rough diamonds are purchased by either long-term

contracts, or in auctions, or in spot sales (based on a onetime contract). Polished diamonds are mostly sold at industry exhibitions.

### G) Design and Fabrication

- **Design:** Jewellery designs vary from one region to another, as tastes differ according to both geographic location as well as motives for purchase. In rural and more traditional areas, consumers prefer 21k jewellery with old fashioned designs. Urban consumers, on the other hand, are demanding more trendy and fashionable lower weight jewellery (18k).
- **Fabrication:** In the gold and diamond jewellery industry, three major manufacturing techniques are typically adopted:
  - **Pressing:** The use of motorised or hand-operated machinery, specially designed for minting gold and silver using hydraulic force. The designs are usually basic, cheap and fast to manufacture.
  - **Casting:** The process of creating a model pattern in wax that will then be used to hold hot metal (gold, silver etc.) to shape it into uniform items based on the model. It offers higher quality than pressing and can produce high volumes from the same mould.
  - **Other advanced techniques such as 3D printing and Micro-Setting:** 3D printing is the process of making jewellery using a three-dimensional digital model. Micro-setting is a technique revolving around setting small diamonds of a uniform size in interlocked rows using high magnification. These techniques enable manufacturers to maintain tight control over the gold content of the jewellery pieces and to increase their labour service charge due to the exclusivity of the designs.

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

### H) Wholesale and Distribution

Several different wholesaler roles are currently present in the jewellery market in the Kingdom.

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

### I) Retail

Retail activity in the Kingdom can be found across:

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

Retail gold customers are typically segmented into four categories:

- **Occasion-driven consumption:** Primarily driven by social events such as weddings, births and anniversaries. It is highly seasonal, peaking in Q2, and not affected by differences in social class.
- **Fashion-driven consumption:** Driven by increasing urbanisation and the rising disposable income of the younger population. Purchases are typically made by young female consumers for daily use for attending social events. This segment is relatively more sensitive to gold price fluctuations.
- **Savings-driven consumption:** Typically considers gold purchases, especially 21k gold, as storage of wealth. In the Kingdom, gold jewellery is traditionally considered to preserve women's wealth after marriage and is used as a money proxy in times of hardship or high inflation.
- **Investment-driven consumption:** Typically in the form of coins and bars of 24k gold. Gold is used as a hedge against volatility during times of economic, political and social uncertainty.



### 3.1.3 Market Development

Over recent years, the gold and diamond jewellery market in the Kingdom experienced strong growth, primarily driven by:

- **Solid population growth:** The country's population has been steadily growing at a solid rate of approximately 2.2% per annum, standing at around 31 million in 2015G.
- **Higher disposable income levels:** The country's rapidly expanding economy is reflected in a growing GDP per capita, thereby yielding higher disposable income levels and stronger purchasing power.
- **Decreasing gold prices:** Since 2012G, gold prices have been decreasing by approximately 11% per year. This decrease in gold price incentivised more consumers to purchase gold jewellery.
- **High volumes of pilgrims:** The country's continuous stream of pilgrims provides a consistent source of foreign expenditure.
- **Increasing number of marriages:** The number of marriages has been growing by approximately 5% annually since 2012G to reach approximately 168.3 thousand marriages in 2015G.
- **Large young adult population:** The country has a young population, with more than one-third under the age of 20 years and almost 72% of the population under the age of 40 years.

#### 3.1.3.1 Gold Jewellery Wholesale Market

The Saudi Arabian gold jewellery wholesale market grew by approximately 30% (at a compound annual growth rate of 9.3%) between 2012G and 2015G, to reach 61.6 tons in 2015G. 2013G was the first year gold prices started decreasing (an approximately 15% decrease) after more than seven years of constant increases. There was a surge in gold jewellery demand as a result of the lower prices. Consequently, the market could adjust itself through lower-than-expected demand in 2014G as a way of regressing to the mean demand. Prices continued to decline going forward, but at a slower rate (10% and 8% in 2013G-2014G and 2014G-2015G, respectively). The following table sets out the Kingdom's gold jewellery wholesale market development by volume:

**Table 3.8: The Kingdom's Gold Jewellery Wholesale Market Development by Volume (Tons) in 2012G to 2015G**

|                                    | 2012G | 2013G | 2014G  | 2015G |
|------------------------------------|-------|-------|--------|-------|
| Total gold jewellery volume (tons) | 47.1  | 57.1  | 54.7   | 61.6  |
| Year-on-year growth (%)            | -     | 21.7% | (4.4%) | 13.3% |

Source: Market Consultant report

The gold jewellery market (18k and 21k) is defined as comprising the following product segments:

- **Plain:** plain gold jewellery with no additional stones.
- **With cubic zirconia:**
  - **Sets:** A collection of jewellery pieces that contain zircon, comprising a ring, necklace, bracelet and earrings.
  - **Nawaim:** Individual pieces including a ring, necklace, bracelet, wedding ring, half set and/or earrings.
  - **Bangles (21k only):** A gold bracelet without a clasp that contains zircon.



Out of the total gold volume in 2015G, gold with cubic zirconia jewellery are represented 27.8 tons or 45%. The gold with cubic zirconia jewellery market is segmented into 21k and 18k gold jewellery. The 21k segment is constituted 15.1 tons or 54% of the gold with cubic zirconia volume. The 18k gold with cubic zirconia product segment, considered to be the fastest growing segment, reached 12.8 tons, equivalent to 46% of total gold with cubic zirconia with a CAGR of 11.7% between 2012G and 2015G. The following table sets out the Kingdom's gold jewellery wholesale market development by product segment and volume:

**Table 3.9: The Kingdom's Gold Jewellery Wholesale Market Development by Product Segment and Volume (Tons) in 2012G to 2015G**

|                                   | 2012G | 2013G | 2014G  | 2015G |
|-----------------------------------|-------|-------|--------|-------|
| Plain gold                        | 25.9  | 31.4  | 30.0   | 33.7  |
| Gold + cubic zirconia 18k Sets    | 6.7   | 8.2   | 7.9    | 9.0   |
| Gold + cubic zirconia 18k Nawaim  | 2.7   | 3.4   | 3.3    | 3.8   |
| Gold + cubic zirconia 21k Sets    | 5.4   | 6.6   | 6.4    | 7.2   |
| Gold + cubic zirconia 21k Nawaim  | 4.8   | 5.7   | 5.3    | 5.9   |
| Gold + cubic zirconia 21k Bangles | 1.5   | 1.9   | 1.8    | 2.0   |
| Total gold jewellery volume       | 47.0  | 57.2  | 54.7   | 61.6  |
| Year-on-year growth               | -     | 21.7% | (4.4%) | 13.3% |

Source: Market Consultant report

On the other hand, the Saudi Arabian diamond jewellery wholesale market grew by approximately 26% in value (at a compound annual growth rate of 8.1%) between 2012G and 2015G to reach SAR 6.9 billion in 2015G. The following table sets out the Kingdom's diamond jewellery wholesale market development by value in 2012G-2015G:

**Table 3.10: The Kingdom's Diamond Jewellery Wholesale Market Development by Value (SAR billion) in 2012G to 2015G**

|   | 2012G | 2013G | 2014G | 2015G |
|---|-------|-------|-------|-------|
| Total diamond jewellery value (SAR billion) | 5.5   | 5.8   | 6.4   | 6.9   |
| Year-on-year growth (%)                     | -     | 5.4%  | 10.3% | 7.8%  |

Source: Market Consultant report

The diamond jewellery market is defined as comprising the following product segmentation:

- **Sets:** A collection of jewellery pieces comprising a ring, necklace, bracelet and earrings.
- **Nawaim:** Individual pieces including a ring, necklace, bracelet, wedding ring, half set and/or earrings.

The following table sets out the Kingdom's diamond jewellery wholesale market development by product segment and value:

**Table 3.11: The Kingdom's Diamond Jewellery Wholesale Market Development by Product Segment and Value (SAR billion) in 2012G to 2015G**

|   | 2012G | 2013G | 2014G | 2015G |
|---|-------|-------|-------|-------|
| Nawaim (SAR billion)                        | 2.5   | 2.7   | 2.9   | 3.2   |
| Sets (SAR billion)                          | 3.0   | 3.1   | 3.5   | 3.8   |
| Total diamond jewellery value (SAR billion) | 5.5   | 5.8   | 6.4   | 6.9   |
| Year-on-year growth (%)                     | -     | 5.4%  | 10.3% | 7.8%  |

Source: Market Consultant report

### 3.1.3.2 Diamond Jewellery Retail Market

The diamond market, as defined by total retail value of diamonds, also exhibited strong growth during 2012G-2015G, increasing at a compound annual growth rate of 8.1% from SAR 7.9 billion in 2012G to SAR 10.0 billion in 2015G. The development of the retail market in particular is attributable to the increased penetration of jewellery retailers in shopping malls across the Kingdom. Higher disposable income levels

are driving consumers towards more upscale jewellery purchases, increasing demand for luxurious jewellery, especially diamond jewellery. The following table sets out the Kingdom's diamond jewellery retail market development by value.

**Table 3.12: The Kingdom's Diamond Jewellery Retail Market Development by Value (SAR billion) in 2012G to 2015G**

|  | 2012G | 2013G | 2014G | 2015G |
|--|-------|-------|-------|-------|
| Total diamond retail value (SAR billion) | 7.9   | 8.4   | 9.3   | 10.0  |
| Year-on-year growth (%)                  | -     | 6.3%  | 10.7% | 7.5%  |

Source: Market Consultant report

The diamond jewellery market is defined as comprising Sets and Nawaim. Demand for sets and Nawaim grew at a similar pace (at compound annual growth rates of 8.4% and 7.9%, respectively) with sets representing 55% of the total diamond retail market value. This growth is driven by an increase in household disposable income as well as, in the case of sets, in the number of marriages. The following table sets out the Kingdom's diamond jewellery retail market development by product segment and value in 2012G to 2015G.

**Table 3.13: The Kingdom's Diamond Jewellery Retail Market Development by Product Segment and Value (SAR billion) in 2012G to 2015G**

|  | 2012G | 2013G | 2014G | 2015G |
|--|-------|-------|-------|-------|
| Sets (SAR billion)                       | 4.3   | 4.5   | 5.0   | 5.5   |
| Nawaim (SAR billion)                     | 3.6   | 3.9   | 4.3   | 4.5   |
| Total diamond retail value (SAR billion) | 7.9   | 8.4   | 9.3   | 10.0  |
| Year-on-year growth (%)                  | -     | 6.3%  | 10.7% | 7.5%  |

Source: Market Consultant report

### 3.1.4 Competitive Landscape

#### 3.1.4.1 Wholesale

In the Kingdom, the top two local jewellery wholesalers accounted for around 35%–45% of the total wholesale jewellery market share. However, jewellery imports take up a large share of the market, with an estimated 35%–50% in 2014G. The rest of the market share is divided between smaller local players. L'azurde Group's market share is estimated at 20%–25% in 2014G in terms of overall gold with zirconia jewellery sector. However in the 18k segment, L'azurde Group's market share is estimated at 5%–10% thereby reflecting a significant growth opportunity. The following table sets out the estimated market share in the Kingdom of gold with zirconia jewellery by volume for top wholesalers:

**Table 3.14: Estimated Market Share in the Kingdom of Gold Plus Jewellery by Volume for Top Wholesalers in 2014G**

|                     | Total market share in 2014G |
|---------------------|-----------------------------|
| L'azurde Group      | 20–25%                      |
| Taiba               | 15–20%                      |
| Ghassan             | 0–5%                        |
| Massagh             | 0–5%                        |
| Other local players | 10–15%                      |
| Imports             | 35–50%                      |

Source: Market Consultant report

The majority of wholesalers in the Kingdom consist of family-owned businesses. Hereafter is an overview of the major players in the market:

- **Taiba:** One of the largest family-owned gold and jewellery manufacturers and wholesalers in the Kingdom, operating in the market since 1989G. Taiba is characterised by its competitive prices and strong presence in low-weight sets.
- **Ghassan:** A third generation of local gold jewellers with roots dating back to 1885G. Ghassan has a strong presence in the Eastern region and also in Jeddah.

- **Massagh:** A Jeddah-based manufacturer and wholesaler.
- **Musalli:** A Jeddah-based family owned workshop operating since 1984G, which enjoys a sizable production capacity

The jewellery wholesale market is led by a limited number of large wholesale-manufacturers who enjoy strong design and manufacturing capabilities. While the import process is represented in gold jewellery imported from low cost countries (e.g. India and China). In such countries, major players, characterised by their strong manufacturing capabilities, produce large quantities of gold jewellery designs and sell them at low prices. This is often because imitating fashionable new designs is done by high-end brands in the market, while local players and workshops have limited design and manufacturing capabilities, as they produce preliminary designs due to their simple jewellery production techniques.

On the other hand, the diamond jewellery wholesale market is heavily fragmented with no dominant local players and a significant imports segment. The following table sets the wholesale jewellery competitive landscape in the Kingdom as at end of September 2015G:

**Table 3.15: Wholesale Jewellery Competitive Landscape in the Kingdom as at September 2015G**

| Name                              | Competitive Advantage  | Main Geographic Reach                       | Products Offered           |
|-----------------------------------|--|---|----------------------------|
| L'azurde Group                    | <ul style="list-style-type: none"> <li>Advanced manufacturing capabilities</li> <li>Strong brand equity</li> <li>Low-weight designs</li> </ul> | Central, Western, South and Eastern regions | Gold and diamond jewellery |
| Taiba                             | <ul style="list-style-type: none"> <li>Legacy</li> <li>Low-weight</li> <li>Low-price (LSC)</li> <li>Consignment policy</li> </ul>              | Central and Western and Eastern regions     | Gold jewellery             |
| Massagh                           | <ul style="list-style-type: none"> <li>Low-weight</li> <li>Low-price (LSC)</li> </ul>  | Central, Western and Eastern regions        | Gold jewellery             |
| Musalli                           | <ul style="list-style-type: none"> <li>Well-established reputation</li> <li>Low-weight</li> <li>Low-price (LSC)</li> </ul>                     | Western region                              | Gold jewellery             |
| Ghassan                           | <ul style="list-style-type: none"> <li>Low-weight</li> <li>Low-price (LSC)</li> </ul>  | Riyadh and Eastern regions                  | Gold and diamond jewellery |
| Imported jewellery                | <ul style="list-style-type: none"> <li>Low-weight</li> <li>Low-price (LSC)</li> </ul>  | Limited presence across regions             | Gold and diamond jewellery |
| Small local players and workshops |  | Limited presence across regions             | Gold and diamond jewellery |

Source: Market Consultant report

The value proposition of wholesalers can be differentiated along six key dimensions:

- **Weight:** The average weight of offered products links directly to their price points and competitiveness. According to market intelligence information, low-weight sales are 1.5 to two times higher than high-weight sales.
- **Labour service charge:** The main price differentiator between manufacturers reflecting the premium charged including design, fabrication, brand equity, and service level. In the 18k segment, competitors offer approximately similar labour service charge averaging at SAR 18 per gramme. In the 21k segment, the average labour service charge varies greatly depending on the complexity and exclusivity of the manufacturing techniques.
- **Branding:** Saudi Arabian gold purchasing behaviour is becoming more affected by brand awareness and trust. L'azurde Group's aggressive investment in brand building since 1993G has helped it secure strong brand awareness in the Kingdom, especially in the 'top-of-mind' metric, according to a study conducted by a market research company, Taylor Nelson Sofres Company ("TNS").
- **Designs:** The Saudi Arabian clientele is developing a sophisticated taste in jewellery to which all designs should cater.
- **Trade terms:** Attractive trade terms (retailers' margins, credit days, etc.) motivate the retailers to order and push the distributors' products. Such trade terms can be:
- Credit terms, providing retailers around 90 days to pay their invoices;

- Exchange policy, allowing retailers to return damaged goods and 10% of non-moving products to manufacturer;
- Consignment, allowing retailers to return unsold goods after a predefined period of time;
- Salesmen incentive schemes, encouraging retailers to sell more products in return for discounts or rewards.
- Coverage: The ability to reach retailers in various regions of the Kingdom is vital to achieve higher sales and market share. Jewellery sales are still concentrated in major souks across the Kingdom. L'azurde Group has a near-nationwide presence in the jewellery retail market, operating primarily through wholesale offices across the central belt of the Kingdom and covering over 1,000 retail stores across the Kingdom.

### 3.1.4.2 Retail

The Saudi Arabian retail landscape primarily comprises medium and low-end players operating in gold souks and high-streets. However, several large retailers with an international footprint also operate in the Kingdom, offering a wide range of products. These players typically have a strong brand name and an excellent reputation among consumers due to their regional success. The middle tier includes retailers that have high brand awareness only within the Kingdom due to their strong nationwide presence and local focus. Other small retailers are dispersed across the Kingdom. These retailers typically have fewer than five branches and offer low-end gold and diamond jewellery.

Given its relatively small retail network of outlets, L'azurde Group today has significant room to grow its retail footprint and capture a more significant share of the retail market.

Hereafter is an overview of selected players in the jewellery retail market in the Kingdom:

- **Al Romaizan:** The largest retailer in the Kingdom, operating more than 250 outlets. Al Romaizan is widely spread across the Kingdom, Qatar, UAE, and Oman.
- **Damas:** Established in 1907G, Damas is one of the largest jewellery retailers in the region, distributing 28 brands across various stores throughout the Middle East. Damas operates 22 branches in the Kingdom across gold souks, high streets and shopping malls. Damas' international network includes more than 210 outlets across six countries.
- **Al Shalawi for Gold & Jewellery:** A company for gold and diamond jewellery, running 21 retailers in the Kingdom. It is a family company owned by Mutlaq Al Shalawi and has offices in the Kingdom and UAE.
- **Al Fitaihi:** Al Fitaihi Holding Group is the first publicly listed jewellery and luxury goods retailer in the Kingdom. It operates 55 branches across various high streets and shopping malls in the Eastern, Central and Western regions.
- **Zaree:** Established in 1960G and owned by Saleh Al Mash'i. The Company owns 10 showrooms selling gold and diamond jewellery.

**Table 3.16: Retail Jewellery Competitive Landscape in the Kingdom**

| Name            | Competitive Advantage  | Number of outlets in the Kingdom | Products offered           |
|-----------------|--|----------------------------------|----------------------------|
| L'azurde Group  | Large designs collection<br>Strong brand equity<br>Celebrity endorsements      | 10                               | Gold and diamond jewellery |
| Al Romaizan     | Largest network of outlets<br>Well established brand                           | 250                              | Gold and diamond jewellery |
| Damas           | Large network of outlets<br>Large collection of brands<br>Aggressive expansion | 22                               | Gold and diamond jewellery |
| Al Shalawi      | Large network of outlets   | 21                               | Gold and diamond jewellery |
| Al Fitaihi      | Large network of outlets<br>Aggressive expansion strategy                      | 55                               | Gold and diamond jewellery |
| Zaree           | Competitive pricing  | 10                               | Gold and diamond jewellery |
| Small retailers |  | Typically<5                      | Gold and diamond jewellery |

Source: Market Consultant report

The value proposition of retail jewellery market players can be differentiated along four key dimensions:

- **Range of products offered:** Wider collection range leads to higher sales volumes as customers require a large variety of items to satisfy their changing preferences.
- **Branding:** Total brand awareness plays a big role in deciding which retailer is the first option for consumers. L'azurde Group believes that it enjoys the strongest brand of all retailers operating in the Kingdom.
- **After-sales service quality:** Maintenance and exchange options increase the popularity of a retail shop as Saudi Arabian clientele are increasingly exchanging jewellery and requesting new designs.
- **Geographic coverage:** The presence of retailers in key retail areas in the Kingdom is vital to maintain high sales volumes and to increase visibility.

### 3.1.5 Market Trends

Going forward, several trends are expected to shape the jewellery market in the Kingdom:

#### 3.1.5.1 Increased Demand for Branded Products

Increasing media penetration is exposing Saudi Arabian consumers to global trends and fashions, and accordingly the jewellery, watches and silverware segment has been one of the fastest-growing consumer expenditure segments, growing at a compound annual rate of 11% to reach SAR 32 billion in 2014G. As a result, manufacturers are increasing the flexibility of their manufacturing processes to fulfil the demand for innovative jewellery designs on a more frequent basis.

#### 3.1.5.2 Lower-Weight Sets

The historical increase in gold prices is driving demand for lower-weight sets. Within low-weight the market, lower-weight designs typically have the highest ratio of units sold per design. Specifically, low-weight sales are 1.5 to 2 times higher than the high-weight sales. Therefore, manufacturers employing basic production techniques are having a difficult time adapting to this trend, as their control over jewellery gold content is limited.

#### 3.1.5.3 Rising 18k Jewellery

As Saudi Arabian consumers are getting more exposed to Western trends, preferences are shifting away from traditional jewellery designs. This shift in preferences mostly impacts the 18k jewellery segment, as it allows for more innovative and flexible product designs at lower price points. The 18k product segment is mainly demanded by young urban Saudi Arabian consumers who currently comprise 38% of the total population representing 2.8% compound annual growth rate. Moreover, almost 86% of the total Saudi Arabian population is currently living in urban regions, driving a demand for fashionable, branded products and a commensurate increase in demand for 18k jewellery. As a result, market players who are seeking to capitalise on this growth are re-focusing their activities to develop and improve their 18k product offering. L'azurde Group's growth in 18k outpaces its total growth, indicating L'azurde Group's intention to achieve a much higher market share in 18k.

#### 3.1.5.4 Increased Role of Retail Chains

A large population and growing disposable income levels have historically driven the retail sector in the Kingdom. Jewellery retailers have increased their presence in the retail market (particularly in shopping malls across the country) and are set to continue to do so in order to capitalise on the large potential for jewellery retailing in the Kingdom. Moreover, local and regional retailers are striving to build loyalty to their own retail chain rather than that of the jewellery brand, differentiating themselves through branding and the in-store experience offered to consumers.

#### 3.1.5.5 Advancements in Manufacturing Technologies

Large manufacturers have pioneered investment in new manufacturing technologies as a way of creating unique designs. Jewellery manufactured using such techniques can command higher labour service charges due to the exclusivity of the design as the adoption of more advanced techniques (e.g. 3D printing) makes imitation increasingly difficult. The increasing automation of processes also implies that advanced production technologies are typically less labour intensive and require a shorter lead time.

## 3.2 Jewellery Market in Egypt

### 3.2.1 Macro-Economic Overview

The Egyptian economy started showing signs of recovery in 2014G, following a period of political unrest. Moreover, due to its fast-growing population, adding close to one million new consumers every year, Egypt was able to minimise the negative effect of the political unrest on the consumer goods market.

The key economic, demographic and social factors impacting the development of the jewellery market as a whole are outlined below.

#### 3.2.1.1 Economic

Prolonged political transition beginning in 2011G has had a considerable destabilising impact on the Egyptian economy. Real gross domestic product growth rates slowed from 5% before 2010G (EGP 1.458 billion equivalent to SAR 669.8 billion in 2006G) to 3% after 2011G.

Moreover, inflation rates have been fluctuating since 2006G. After a spike to 19.1% in 2008G, inflation rates decreased to 7.3% in 2012G. However, since 2012G, inflation rates increased to reach 10.3% in 2015G.

**Table 3.17: Macro Economic Indicators in Egypt**

|                                   | 2012G   | 2013G   | 2014G   | 2015G   |
|-----------------------------------|---------|---------|---------|---------|
| Real GDP (EGP billion)            | 1,915.1 | 1,955.3 | 1,997.6 | 2,073.5 |
| Real GDP (SAR billion)            | 919.2   | 938.5   | 958.8   | 1,036.8 |
| Real GDP per capita (EGP billion) | 23.5    | 23.4    | 23.3    | 24.0    |
| Real GDP per capita (SAR billion) | 11.3    | 11.2    | 11.2    | 12.0    |
| Inflation (%)                     | 7.3%    | 9.5%    | 10.1%   | 10.3%   |

Source: Market Consultant report

However, since 2012G Egypt has been experiencing a 5.6% yearly growth in real disposable income per household fuelled by governmental support. Previously, real disposable income was stagnant, growing at 0.6% per year between 2005G and 2012G.

The relative boom in disposable income in 2013G is mainly due to government stimulus packages that year, aimed at increasing minimum income, decreasing unemployment and developing national infrastructure. The first stimulus package was announced in August 2013G and was worth EGP 29.6 billion (equivalent to SAR 14.2 billion). The second stimulus package was announced in December 2013G and was worth EGP 30 billion (equivalent to SAR 14.4 billion). In July 2014G, the Egyptian government announced a new package aimed at boosting the industrial, construction, communications and tourism sectors.

Increased government spending was reflected in growing public debt since 2011G. In fact, public debt rose from 78.9% of total GDP in 2012G to 88.5% in 2015G. The Gulf Cooperation Council countries are, in parallel, supporting the Egyptian economy through foreign aid. As the political situation stabilised in 2014G, Egypt received USD 16.6 billion (equivalent to SAR 62.3 billion) in support from the Kingdom, UAE and Kuwait, approximately equal to 10% of Egypt's GDP. Moreover, the same three countries pledged to invest an additional USD 22 billion (equivalent to SAR 82.51 billion) in 2015G to be channelled towards various industries and initiatives including renewable energy, infrastructure and job creation schemes.

The foreign support will fund several large projects across Egypt, boosting employment and consequently the buying power of the Egyptian population. As a result, demand for retail goods (including jewellery) is expected to continue developing. The following table summarises real disposable income per household in Egypt in 2012G - 2015G:

**Table 3.18: Real Disposable Income per Household in Egypt in 2012G-2015G**

|   | 2012G | 2013G | 2014G | 2015G |
|---|-------|-------|-------|-------|
| Real disposable income per household (EGP '000) | 74.2  | 83.3  | 82.2  | 95.1  |
| Conversion (SAR '000)                           | 35.6  | 40    | 39.5  | 47.6  |
| Public debt (% of GDP)                          | 78.9% | 89.0% | 90.5% | 88.5% |

Source: Market Consultant report



Despite current low levels of disposable income per capita (compared to GCC countries), Egypt's total disposable income growth rate is the second fastest in the region. The growth in total disposable income increases the attractiveness of the Egyptian market for local and foreign jewellery players as Egyptians enjoy stronger buying power and become more active consumers in the retail market.

Additionally, tourism constitutes one of the main sources of revenue for the Egyptian government and has been heavily impacted by recent political turmoil. Between 2005G and 2008G, tourist expenditures increased by approximately 80%. However, it suffered a sharp decrease due to the global economic crisis followed by the recent political unrest thereby dropping by approximately 25% between 2008G and 2011G. As the political scene started stabilising in 2012G, tourism expenditures witnessed a gradual recovery reflected in 2% yearly growth in 2012G and 10% in 2013G.

The upward trend in tourism expenditure is expected to improve the local economy in general and the retail/jewellery markets in particular. The following table summarises the number of international inbound tourists and total international inbound tourism expenditures in Egypt in 2012G, 2013G and 2014G:

**Table 3.19: Tourism Statistics in Egypt**

|   | 2012G | 2013G | 2014G |
|---|-------|-------|-------|
| International inbound tourists (million)                | 11.5  | 9.5   | 9.9   |
| International inbound tourism expenditure (USD billion) | 2.2   | 2.5   | 2.6   |
| International inbound tourism expenditure (SAR billion) | 8.3   | 9.4   | 9.7   |

Source: Market Consultant report

Backed by governmental stimulus packages and a recovering tourism sector, Egypt's economy has been recently improving, signalling the beginning of potential stable economic growth. This economic growth would positively affect the retail market as households are now enjoying a higher disposable income and spending power, driving retail demand.

### 3.2.1.2 Demographic

Population growth is a key driver of jewellery demand in Egypt. Egypt's population has increased from 71 million in 2006G to 88.0 million in 2015G at a compound annual growth rate of around 2.4%.

Egypt has a relatively young population with approximately 41% under the age of 20 years. In absolute terms, the young adults segment (20 to 39 years) is the fastest-growing segment, adding more than 5.6 million young adults over ten years.

Population growth, specifically young adults, provides a solid basis for growth in the consumer market. The increasing proportion of young adults in the population creates an attractive market for expenditure on branded goods (assuming stable future political and economic conditions). The following table sets out Egypt's population breakdown by age in 2012G - 2015G:

**Table 3.20: Egypt's Population Breakdown by Age**

|                          | 2012G | 2013G | 2014G | 2015G |
|--------------------------|-------|-------|-------|-------|
| 0–19 years (million)     | 33.5  | 34.5  | 35.3  | 36.3  |
| 20–39 years (million)    | 26.9  | 27.4  | 28.0  | 28.4  |
| 40+ years (million)      | 21.2  | 21.8  | 22.5  | 23.3  |
| Total (million)          | 81.6  | 83.7  | 85.8  | 88.0  |
| Year-on-year growth rate | -     | 2.6%  | 2.6%  | 2.5%  |
| Percentage of total      |       |       |       |       |
| 0–19 years (%)           | 41.1% | 41.1% | 41.1% | 41.2% |
| 20–39 years (%)          | 32.9% | 32.8% | 32.6% | 32.3% |
| 40+ years (%)            | 26.0% | 26.1% | 26.3% | 26.5% |
| Total (%)                | 100%  | 100%  | 100%  | 100%  |

Source: Market Consultant report

Egypt's large, young and growing population has a positive effect on the retail market despite regional instability at times. Moreover, by continuously adding large numbers of young consumers, Egypt offers healthy growth opportunities for consumer goods and branded products.



### 3.2.1.3 Social

Alongside economic and demographic development in Egypt, several social factors have influenced the development of the retail and jewellery markets. These factors, including increases in marriage rates, consumer expenditures and the middle-class segment, have impacted consumer buying behaviour and driven demand for jewellery in the Egyptian market.

#### A) Marriages

Marriages are considered an important driver of jewellery demand, as the traditional wedding gift from a groom to his bride in Egypt is still gold and diamond jewellery. In particular, demand for gold jewellery sets (comprising a ring, necklace, bracelet and earrings) is typically driven by the number of marriages due to the strong cultural attachment to the gifting of marriage sets in Egyptian weddings.

The yearly total number of marriages has been increasing at a compounded annual rate of 6.4% growing from 922,000 marriages in 2012G to 950,100 marriages in 2015G. Moreover, marriage rates per 1,000 population have grown from 7.3 in 2005G to 10.8 in 2015G. Marriages have greatly outpaced population growth (2.3%) due to the high number of young adults entering marriage age. Increasing marriage rates reflect improved economic conditions for the young adults segment, which increases overall consumption and jewellery demand in Egypt.

#### B) Urbanisation and Consumer Expenditure

The Egyptian population is relatively evenly distributed across major urban and rural areas. Urban households constituted 44.9% of total households in 2012G, and in 2015G they still constitute only 45.2%. The high dependence of the Egyptian economy on agriculture means the continued prevalence of rural households across the country.

This population distribution is reflected in the distribution of consumer expenditure by region. Egypt has a relatively even distribution of consumer expenditure across its 27 regions, where the largest 13 regions account for only 81% of the total consumer expenditure.

Egypt's relatively low urban population ratio when compared to GCC countries is driving demand for more traditional jewellery purchases. The wide distribution of consumer expenditure represents a challenge for wholesalers and retailers since it requires them to be geographically spread across 50% of the regions to tap into 80% of total consumer expenditure.

#### C) Middle Class

Due to low income disparities between rural and urban populations, 38% of household are considered to be middle class. Consequently, Egypt has the highest middle-class household ratio across the region.

A relatively large middle class signifies that similar tastes and purchasing behaviour are shared among a large section of the population. Thus, the Egyptian market is attractive for wholesalers/retailers targeting the middle-class segment.

**Table 3.21: Egypt's Social Statistics**

|  | 2012G | 2013G | 2014G | 2015G |
|--|-------|-------|-------|-------|
| Annual marriages ('000)                        | 921.7 | 912.0 | 935.5 | 950.1 |
| Urban households (% of total households)       | 44.9  | 45.0  | 45.1  | 45.2  |
| Marriage rate (per '000 population)            | 11.3  | 10.9  | 10.9  | 10.8  |
| Middleclass households (% of total households) | 38.0  | 37.9  | 37.8  | 37.8  |

Source: Market Consultant report

Egypt's social landscape is characterised by a high yearly number of marriages, a widespread middle-class segment sharing similar tastes and a geographically fragmented consumer goods market. Therefore, Egypt's market offers good growth opportunities for large jewellery wholesalers and retailers targeting middle-class segments across urban and rural areas.

## 3.2.2 Jewellery Industry Overview

### 3.2.2.1 Market Characteristics

The Egyptian jewellery market is defined as comprising gold and diamond jewellery. It is characterised by four main attributes, outlined in the section below.

#### A) Socially and Culturally Significant

The Egyptian population has a longstanding cultural attachment to gold jewellery as an item to be gifted on special occasions and weddings. Gold is purchased mainly as a marriage gift supported by the fact that an estimated 60% of jewellery demand is driven by wedding purchases. The majority of Egyptians also consider gold jewellery, especially in the 21k segment, as a source of investment (in addition to a luxury purchase).

#### B) Well-established Retail Environment

Gold is primarily sold in gold districts across both urban and rural regions and, increasingly, in shopping malls across urban regions. Retailers are mostly well-established, family-run local businesses (on either a local or national level). Gold jewellery is still largely sold by weight across Egypt rather than by piece as is the custom in Western markets.

#### C) Fragmented, Predominantly Local Manufacturing Base

The gold jewellery market comprises a large number of small, local manufacturers with limited technological capabilities that capture approximately 50% of the market. In addition, there are a very limited number of imported products in the market, primarily from Italy, UAE and Turkey.

#### D) Volatile Gold Prices and Economic Growth

Fluctuations in gold prices directly impact demand of jewellery products, with rising gold prices driving lower demand, thus creating challenging market circumstances for smaller manufacturers and workshops. Conversely, declining gold prices allow consumers to invest in a relatively safe commodity.

### 3.2.2.2 Industry Value Chain

#### A) Sourcing

Gold in Egypt is mainly sourced from four channels:

- **Gold mining:** The Sukari mine is currently the only gold mine in Egypt operated by Centamin, with production levels in 2015G reaching 12.3 tons. The Sukari gold mine is jointly owned by Centamin and the Egyptian Mineral Resources Authority. The mine began commercial production in 2010G, and it is the country's first large-scale modern gold mine with a lifetime of approximately 20 years.
- **Import:** Mined gold is also sourced through imports from countries in Central Africa and the GCC.
- **Ore processing and scrap:** Gold jewellery is strongly perceived as an investment vehicle in Egypt, increasing the amount of recycled gold used by manufacturers. Gold ore processing is not significant.
- **Commodity traders:** Gold is sourced from commodity traders in the form of ingots or gold bars that would then be melted to use in the production process.

#### B) Design and Fabrication

- **Design:** Jewellery designs are produced in-house, as Egyptians have a unique taste in gold jewellery. While there is an increasing demand for lower-weight 18k trendy designs in urban areas, 21k still constitutes around 70% of the total gold jewellery market in 2014G, mainly driven by wedding-related demand.
- **Fabrication:** The majority of jewellery fabrication takes place in small, local and family-owned workshops that use basic production techniques (e.g. stamping, casting). There are few players that have big manufacturing facilities that utilise new technologically advanced machines to produce high volumes at lower costs (e.g. Egypt Gold, L'azurde Group).

Designers and fabricators face several challenges as Egypt adopts relatively strict laws concerning foreign workers, enforcing a 90% Egyptianisation rate on local firms. There are more than 110,000 workers in the jewellery industry, yet skilled Egyptian designers and craftsmen are rare due to the limited number of training institutes specialised in jewellery craftsmanship. As a result, most designers and specialists are foreigners and located abroad. However, the Egyptian government is investing in the development of local talent by establishing the jewellery Technology Center in 2006G. Similarly, private sector companies have also invested in creating their own training academies, such as the L'azurde Training Academy which opened many years ago.

### C) Wholesale and Distribution

There are two main wholesale configurations present in the jewellery market in Egypt:

- **Pure wholesaler:** These wholesalers link local family-owned retail businesses to local manufacturers (manufacturers such as L'azurde Group and Egypt Gold). They also have access to foreign manufacturers (mainly in Italy). Moreover, retailers prefer to work with wholesalers since the latter can offer discounts and accept credit payments (rather than cash).
- **Manufacturer/wholesaler:** Manufacturers operating and managing their own private wholesale channels. This configuration allows for higher profit margins, since gold jewellery retail outlets can drive down the overall profitability of the manufacturer. Manufacturers in this role focus on expanding their capacity to supply the wide network of independent jewellery retailers across Egypt.

### D) Retail

Retail activity in Egypt can be found in two areas/locations:

- **Gold districts:** The most popular marketplaces for jewellery retail in Egypt, located in both rural and urban areas. Aside from a limited number of regional retailers (e.g. Damas) the majority of the shops in the districts are small family-owned businesses.
- **Shopping malls:** Typically located in highly populated urban areas, these malls attract both international retail brands as well as local shops that have moved from gold districts or are seeking to expand their retail operations.

The consumption profile of retail customers can be segmented into three categories:

- **Occasion-driven consumption:** Primarily driven by social events such as weddings, births and anniversaries. It is highly seasonal and not affected by differences in social class.
- **Investment-driven consumption:** Typically considers gold purchases, especially 21k gold, as storage of wealth. Traditionally, Egyptians look at gold as an investment to provide financial security for the household in times of hardship. Consequently, investment-driven consumption has recently increased due to local currency volatility and political instability.
- **Tourism consumption:** Mainly driven by tourists souvenir shopping. Tourist gold jewellery purchases decreased over time due to deteriorating perceived quality of Egyptian gold. This segment does not represent a major customer segment for gold jewellery.

### 3.2.3 Market Development

Several market drivers have impacted the gold and diamond jewellery markets in Egypt:

- **Solid population growth:** Egypt's population has been steadily growing at a solid rate of approximately 2.4% per annum standing at around 88.0 million in 2015G.
- **Higher disposable income levels:** Fueled by the increase in governmental spending, disposable income per household has recently increased after a prolonged period of stagnation.
- **Decreasing gold prices:** Since 2012G, gold prices have been decreasing by approximately 11% per year. This decrease in gold price incentivised more consumers to purchase gold jewellery.
- **Recovering tourism receipts:** As at 2011G, tourism expenditures in Egypt started recovering and increasing by approximately by 6% per annum.
- **Decreasing value of the Egyptian Pound against the US Dollar:** As the Egyptian Pound depreciated against the US Dollar, consumers are encouraged to purchase jewellery as an investment.
- **Increasing number of marriages:** The number of marriages has been growing by 6.4% annually ever since 2005G to reach more than 950 thousand marriages in 2015G.
- **Large young adult population:** Egypt has a young population with almost 41% under the age of 20 years and almost 73% of the population under the age of 40 years.

### 3.2.3.1 Jewellery Wholesale Market

The gold jewellery wholesale market in Egypt grew by approximately 20% in volume (at a compound annual growth rate of 6.3%) between 2012G and 2015G, reaching 83.2 tons in 2015G.

**Table 3.22: Egypt's Gold Jewellery Wholesale Market Development by Volume (Tons)**

|                                    | 2012G | 2013G | 2014G  | 2015G |
|------------------------------------|-------|-------|--------|-------|
| Total gold jewellery volume (tons) | 69.2  | 77.1  | 76.2   | 83.2  |
| Year-on-year growth (%)            | -     | 11.4% | (1.2%) | 9.2%  |

Source: Market Consultant report

The gold jewellery market (18k and 21k) is defined as comprising the following product segmentation:

- Plain: plain gold jewellery with no additional stones.
- With cubic zirconia:
  - Sets: A collection of jewellery pieces that contain zircon, comprising a ring, necklace, bracelet and earrings.
  - Nawaim: Individual pieces of a gold items, including a ring, necklace, bracelet, half set and/or earrings.
  - Bangles (21k only): A gold bracelet without a clasp that contains zircon.

Out of the total gold volume in 2015G, gold with cubic zirconia jewellery represented 50 tons or 60%. The gold with cubic zirconia jewellery market is segmented into 21k and 18k gold jewellery. The 21k segment is constituted 59% of the gold with cubic zirconia market. The 18k gold with cubic zirconia product segment is the fastest-growing segment, representing 20.3 tons, and grew at a CAGR of 6.3% between 2012G and 2015G. The following table sets out Egypt's gold jewellery wholesale market development by product segment and volume (tons) in 2012G to 2015G:

**Table 3.23: Egypt's Gold Jewellery Wholesale Market Development by Product Segment and Volume (Tons)**

|  | 2012G | 2013G | 2014G  | 2015G |
|--|-------|-------|--------|-------|
| Plain gold (tons)                        | 28.0  | 31.2  | 30.6   | 33.4  |
| Gold + cubic zirconia 18k Sets (tons)    | 11.8  | 13.2  | 13.0   | 14.2  |
| Gold + cubic zirconia 18k Nawaim (tons)  | 4.8   | 5.5   | 5.5    | 6.1   |
| Gold + cubic zirconia 21k Sets (tons)    | 11.3  | 12.5  | 12.6   | 14.0  |
| Gold + cubic zirconia 21k Nawaim (tons)  | 10.1  | 11.2  | 10.9   | 11.7  |
| Gold + cubic zirconia 21k Bangles (tons) | 3.2   | 3.6   | 3.5    | 3.8   |
| Total gold jewellery volume (tons)       | 69.2  | 77.1  | 76.2   | 83.2  |
| Year-on-year growth (%)                  | -     | 11.4% | (1.2%) | 9.2   |

Source: Market Consultant report

On the other hand, the Egyptian diamond jewellery wholesale declined by approximately 18% in value (at a compound annual rate of 6.6%) between 2012G and 2015G and reached USD 2.2 billion (equivalent to SAR 8.3 billion) in 2015G. The following table sets out Egypt's diamond jewellery wholesale market development by value (SAR billion) in 2012G to 2015G:

**Table 3.24: Egypt's Diamond Jewellery Wholesale Market Development by Value**

|   | 2012G | 2013G   | 2014G  | 2015G |
|---|-------|---------|--------|-------|
| Total diamond jewellery wholesale value (USD billion) | 2.7   | 2.2     | 2.1    | 2.2   |
| Total diamond jewellery wholesale value (SAR billion) | 10.1  | 8.2     | 7.8    | 8.2   |
| Year-on-year growth (%)                               | -     | (16.6%) | (5.3%) | 2.8%  |

Source: Market Consultant report

### 3.2.3.2 Diamond Jewellery Retail Market

Demand for diamond jewellery, defined by total value, dropped between 2012G and 2014G as a result of an increase in import duties on non-essential items in 2013G, aimed at protecting the Egyptian currency. It begun recovering in 2015G, increasing by 2.8% to reach USD 3.2 billion (equivalent to SAR 12 billion). The following table sets out Egypt's diamond jewellery retail market development by value (SAR billion) in 2012G to 2015G:

**Table 3.25: Egypt's Diamond Jewellery Retail Market Development by Value**

|  | 2012G | 2013G   | 2014G  | 2015G |
|--|-------|---------|--------|-------|
| Total diamond jewellery retail value(USD billion)  | 3.9   | 3.2     | 3.1    | 3.2   |
| Total diamond jewellery retail value (SAR billion) | 14.6  | 12.0    | 11.6   | 12.0  |
| Year-on-year growth (%)                            | -     | (16.6%) | (5.3%) | 3.2%  |

Source: Market Consultant report

The diamond jewellery market is defined as comprising the following product segmentation:

- **Sets:** Diamond jewellery set that comprises a ring, necklace, bracelet and earrings.
- **Nawaim:** Individual pieces of a diamond jewellery, including a ring, necklace, bracelet, wedding ring, half set and/or earrings.

Sets and Nawaim are growing at a similar pace, with Nawaim representing nearly 70% of the total diamond wholesale market value.

**Table 3.26: Egypt's Diamond Jewellery Retail Market Development by Product Segment and Value**

|  | 2012G | 2013G   | 2014G  | 2015G |
|--|-------|---------|--------|-------|
| Sets (USD billion)                                 | 1.2   | 1.0     | 0.9    | 1.0   |
| Sets (SAR billion)                                 | 4.5   | 3.7     | 3.4    | 3.7   |
| Nawaim (USD billion)                               | 2.7   | 2.2     | 2.2    | 2.2   |
| Nawaim (SAR billion)                               | 10.1  | 8.2     | 8.2    | 8.2   |
| Total diamond jewellery value(USD billion)         | 3.9   | 3.2     | 3.1    | 3.2   |
| Total diamond jewellery retail value (SAR billion) | 14.6  | 12.0    | 11.6   | 12.0  |
| Year-on-year growth (%)                            | -     | (16.6%) | (5.3%) | 3.2%  |

Source: Market Consultant report

## 3.2.4 Competitive Landscape

### 3.2.4.1 Wholesale

In Egypt, the top two local jewellery wholesalers account for around 25–35% of the total wholesale jewellery market. However, the market is generally fragmented and small local players take up the largest share, with an estimated 55–60% market share in 2014G, providing an opportunity for larger players such as L'azurde Group to capture market share. L'azurde Group's market share is estimated at 15–20% in 2014G in terms of gold with zirconia jewellery. However in the 18k segment, L'azurde Group's market share is estimated at 5–10% thereby reflecting a significant growth opportunity. The following table sets out the estimated market share in Egypt of gold with jewellery by volume for top wholesalers as at the date of this Prospectus:

**Table 3.27: Estimated Market Share in Egypt of Gold Jewellery by Volume**

|                       | Total market share |
|-----------------------|--------------------|
| L'azurde Group        | 15%-20%            |
| Egypt Gold            | 15%-20%            |
| Andria & George       | 0%-5%              |
| Master Gold           | 0%-15%             |
| Imports               | 0%-5%              |
| Other local workshops | 50%-60%            |

Source: Market Consultant report

An assessment of the competitive landscape reveals a limited number of large players in Egypt. Hereafter is an overview of selected major players in the market:

- **L'azurde:** One of the largest gold and jewellery designers, manufacturers and distributors in the Middle East operating since 1980G. L'azurde Group is characterised by its extensive geographic coverage and advanced manufacturing techniques, and believes that it enjoys the strongest brand equity in the Egyptian jewellery market.
- **Egypt Gold:** The largest family-owned gold and jewellery manufacturer and wholesaler in Egypt with operations since 1989G. Egypt Gold operates with more than 1,500 employees and is also involved in bullion and physical gold trading.
- **Master Gold:** A Cairo-based manufacturer characterised by its competitive pricing and discounting to retailers.
- **Andria & George:** A Cairo-based manufacturer focussing only on 18k gold jewellery. Andria & George offers attractive "returns" policy to customers and relies heavily on social media (e.g. Facebook) to market its products.

In Egypt, there are two large wholesale-manufacturers in the market in terms of popularity and geographic presence. Of those, L'azurde Group enjoys high quality products in terms of design and manufacturing, and high demand for its products. Other smaller local players are spread across the country, with limited design and manufacturing capabilities, mostly focusing on 21k gold bangles. The remaining market share is distributed among the imports segment. Italian jewellery's large share in this industry, reflects designs and a European heritage that are well-accepted by the Egyptian consumers.

**Table 3.28: Wholesale Jewellery Competitive Landscape in Egypt**

| Name                  | Competitive Advantage  | Geographic reach                                   | Products offered           |
|-----------------------|--|--|----------------------------|
| L'azurde Group        | <ul style="list-style-type: none"> <li>Advanced manufacturing capabilities</li> <li>Strong brand equity</li> <li>Low weight designs</li> </ul> | Greater Cairo, Delta, Western and Southern regions | Gold and diamond jewellery |
| Egypt Gold            | <ul style="list-style-type: none"> <li>Light weight</li> <li>Strong presence in Nawaim</li> <li>Gold trading capabilities</li> </ul>           | Greater Cairo, Delta and Southern regions          | Gold and diamond jewellery |
| Master Gold           | <ul style="list-style-type: none"> <li>Competitive pricing</li> <li>Discounting to retailers</li> </ul>  | Greater Cairo                                      | Gold jewellery             |
| Andria & George       | <ul style="list-style-type: none"> <li>Strong presence in 18k segment</li> <li>Discounting to retailers</li> </ul>                             | Greater Cairo, Delta and Southern regions          | Gold jewellery             |
| Small local workshops | <ul style="list-style-type: none"> <li>Low prices</li> </ul>   | Limited presence in all regions                    | Gold jewellery             |

Source: Market Consultant report

The value proposition of wholesalers can be differentiated along six key dimensions:

- **Weight:** The average weight of offered products links directly to their price points and competitiveness. Weight is a particularly relevant factor for 18k jewellery customers targeting fast-fashion. L'azurde Group products have historically had a higher average weight than Egypt Gold. However, recent measures adopted by L'azurde Group have sought to narrow the gap through the introduction of more lower-weight sets across the Egyptian market.
- **Labour service charge:** The main price differentiator between manufacturers reflecting the premium charged, including design, fabrication, brand equity and service level. In the 18k segment, labour service charges range between EGP 19 (equivalent to SAR 9) and EGP 100 (equivalent to SAR 48) per gramme. L'azurde Group has the highest labour service charges in the market after Italian imports. In the 21k segment, labour service charges range between EGP 16 (equivalent to SAR 7.7) and EGP 27 (equivalent to SAR 13) per gramme.
- **Branding:** Egyptian gold purchasing behaviour is becoming more affected by brand awareness and trust. According to studies conducted in the Kingdom and Egypt in 2015G by the market research company TNS, L'azurde Group leads all local manufacturers and retailers in term of brand awareness, especially in the 'top-of-mind' brand category.
- **Designs:** The Egyptian clientele is developing a sophisticated taste in jewellery to which all designs should cater. Retailers also mention the frequency of design change as a key driver to increase sales. L'azurde Group is leading in perceived number of launched designs in 21k and 18k due to its advanced production and design capabilities.



- **Trade terms:** Credit terms and incentive schemes (retailers' margins, credit days, etc.) motivates the retailers to order and push the distributors' products. Market players are typically pushing products by offering attractive discounts to retailers while L'azurde Group is leveraging its strong brand equity to maintain its price premium.
- **Coverage:** The ability to reach retailers in various regions of Egypt is vital to achieving higher sales and market share. Jewellery sales are still concentrated in major gold districts in Egypt. The majority of players are focussed on maintaining a strong presence in Greater Cairo.

### 3.2.4.2 Retail

On the retail front, the Egyptian retail landscape primarily comprises medium- and low-end players operating in Egyptian gold districts. There are a few large retailers with an international footprint that also operate in Egypt, offering a wide range of products. These players typically leverage their regional success and strong brand name to consolidate their position in the retail market. The middle tier includes established family businesses that have had a long history in the market but have limited operational capacities and geographic reach. Other small retailers are dispersed across Egypt. These players typically stock low-end 21k gold jewellery, especially bangles, as they cater to the traditional and rural tastes. The following is an overview of major retailers in Egypt:

- **Damas:** Established in 1907G, Damas is an international, integrated jewellery retailer that offers a wide range of classic Western brands. It operates more than 20 branches across Egypt. However, a recent management decision has led to the transfer of ownership to Al Abdullah Jewellery Trading Group. The Damas brand name will soon no longer be in use in Egypt.
- **Hisham Alkady:** Established in the beginning of the 90's and is the largest gold and diamond retailer in Alexandria, with five stores across Alexandria and a sixth store to be opened in Cairo. Several generations have been running Hisham Alkady's operations over the past 70 years. The company enjoys a presence in traditional gold sales outlets as opposed to specialised locations and shopping malls. In addition, it provides a wide variety of products appealing to different tastes and consumer segments.
- **AlBaz:** Established in 1974G, Albaz is one of the biggest retailers in Cairo operating seven stores, which are considered to be among the cornerstones of gold showrooms in the "AlGamaa" square gold district. The designs and the location of Albaz stores illustrate the level of skills and services that the company offers.
- **Glamour:** A well-established jewellery retailer in Egypt, particularly in the diamond market, offering a variety of international brands as well as a signature design range. Established in 1988G, Glamour started as a wholesale business but then moved into retailing in 1997G. Glamour currently operates five branches in the Greater Cairo region and has recently launched its own exclusive signature design range that includes wedding bands and specially designed necklaces.

The following table sets out the retail jewellery competitive landscape in Egypt as at September 2015G:

**Table 3.29: Retail Jewellery Competitive Landscape in Egypt**

| Name                  | Competitive advantage   | Number of outlets in Egypt | Products offered           |
|-----------------------|---|----------------------------|----------------------------|
| L'azurde Group        | <ul style="list-style-type: none"> <li>• Large design collection</li> <li>• Strong brand equity</li> <li>• Celebrity endorsements</li> </ul>                  | 2                          | Gold and diamond jewellery |
| Damas                 | <ul style="list-style-type: none"> <li>• Large network of outlets</li> <li>• Large collection of brands</li> <li>• Aggressive expansion</li> </ul>            | 20                         | Gold and diamond jewellery |
| Hisham Alkady         | <ul style="list-style-type: none"> <li>• Legacy</li> <li>• Largest jewellery retailers in Alexandria</li> <li>• Wide variety of designs</li> </ul>            | 5                          | Gold and diamond jewellery |
| AlBaz                 | <ul style="list-style-type: none"> <li>• Well established retail network</li> <li>• One of the first entrants to the 'Midan AlGamaa' gold district</li> </ul> | 5                          | Gold and diamond jewellery |
| Glamour jewellery     | <ul style="list-style-type: none"> <li>• Exclusive signature designs</li> <li>• Partnership with foreign manufacturers</li> </ul>                             | 5                          | Gold and diamond jewellery |
| Small local retailers |   | N/A                        | Gold and diamond jewellery |

Source: Market Consultant report



The value proposition of retailers can be differentiated along four key dimensions:

- **Range of products offered:** Wider collection range leads to higher sales volumes as customers require a large variety of items to satisfy their changing preferences.
- **Branding:** Total brand awareness plays a big role in deciding which retailer is the first option for consumers.
- **After-sales service quality:** Maintenance and exchange options increase the popularity of a retail shop, as Saudi Arabian clientele are increasingly exchanging jewellery and requesting new designs.
- **Geographic coverage:** The presence of retailers in key retail areas in the Kingdom is vital to maintain high sales volumes and to increase visibility.

### 3.2.5 Market Trends

Going forward, several trends are expected to shape the jewellery market in Egypt:

#### (a) Increasing Consumer Awareness

The introduction of branded jewellery in the market is increasing consumer awareness regarding the quality of purchased jewellery and the reputation of the retailer. Consequently, customers are asking for strong brands to ensure good-quality jewellery and protect themselves from under-caratage (gold jewellery that actually has lower gold content than what the seller communicates to the buyer).

#### (b) Increasing Popularity of Branded Jewellery

High exposure to regional and global trends is increasing customer interest in Egypt to reputable fashionable brands as a means of self-promotion and self-expression.

#### (c) Rising 18k Jewellery

Due to high price-sensitivity and increased influence of Western tastes, urban Egyptian consumers are increasingly opting for 18k designs. This product segment is mainly driven by the growing young adult population segment that constitutes 33% of the total population and that has been growing at a compound annual growth rate of 2.5%. As a result, market players who are seeking to capitalise on this growth are refocussing their activities to develop and improve their 18k product offerings.

#### (d) Advancements in Manufacturing Techniques

Jewellery manufacturers are investing in new technologies that allow them to create more unique designs, have more control over gold volume and charge higher labour service charges. New manufacturing processes make imitation increasingly difficult for local workshops.

## 3.3 Jewellery market in the rest of the GCC (excluding the Kingdom)

### 3.3.1 Macro-Economic Overview

In recent years, the GCC countries have witnessed a surge in population as their cumulative population has doubled over the past 10 years. This strong population growth was coupled with a healthy economic activity. Steady GDP growth was underpinned by increasing governmental expenditure on civil infrastructure. This has led to rising wealth levels and disposable income per capita. As a result, retail activity in GCC countries (excluding the Kingdom) grew significantly at a compound annual growth rate of 6.1%, from SAR 282.4 billion in 2012G to SAR 318.0 billion in 2014G.

Real gross domestic product per capita (calculated at 2015G constant prices) has been steadily increasing across the majority of GCC countries, thus fuelling consumer expenditure.

**Table 3.30: GDP Per Capita in the GCC Excluding the Kingdom**

|                                 | 2012G | 2013G | 2014G | 2015G |
|---------------------------------|-------|-------|-------|-------|
| Bahrain (SAR '000)              | 87.4  | 92.6  | 94.5  | 96.8  |
| Kuwait (SAR '000)               | 200.6 | 195.8 | 181.9 | 178.3 |
| Oman (SAR '000)                 | 86.3  | 80.6  | 78.0  | 76.9  |
| Qatar (SAR '000)                | 347.3 | 351.4 | 350.3 | 344.3 |
| United Arab Emirates (SAR '000) | 151.5 | 161.3 | 159.4 | 162.4 |

Source: Market Consultant report

Consequently, annual disposable income per capita has grown strongly over recent years across the GCC, with the UAE the highest at approximately SAR 97,500. Moreover, Qatar, Bahrain and Kuwait share approximately similar annual disposable income per capita, albeit Bahrain is growing at a much faster rate of 4.0% (compound annual growth rate). The following table sets out the annual disposable income per household in the GCC (excluding the Kingdom) in 2012G - 2015G:

**Table 3.31: Annual Disposable Income per Household in the GCC Excluding the Kingdom**

|                                 | 2012G | 2013G | 2014G | 2015G |
|---------------------------------|-------|-------|-------|-------|
| Bahrain (SAR '000)              | 267.0 | 300.0 | 322.1 | 337.1 |
| Kuwait (SAR '000)               | 304.5 | 308.6 | 308.3 | 313.1 |
| Oman (SAR '000)                 | N/A   | N/A   | N/A   | N/A   |
| Qatar (SAR '000)                | 313.5 | 333.0 | 330.8 | 334.5 |
| United Arab Emirates (SAR '000) | 464.6 | 484.1 | 521.6 | 553.9 |

Source: Market Consultant report

Population growth across the GCC is around 7.8% per year. This growth rate is several times higher than the global average growth rate of 1.2%. The high rate of population growth can be largely attributed to the high birth rates across the GCC and to the continuous influx of foreign workers to the region. Qatar and the UAE are the fastest growing for the above reasons, followed by Kuwait. This population growth provides a solid basis for growth in the consumer market. The following table sets out the population in the GCC (excluding the Kingdom) in 2012G-2015G:

**Table 3.32: Population in the GCC Excluding the Kingdom**

|                                | 2012G | 2013G | 2014G | 2015G |
|--------------------------------|-------|-------|-------|-------|
| Bahrain (million)              | 1.2   | 1.2   | 1.2   | 1.2   |
| Kuwait (million)               | 3.9   | 4.1   | 4.3   | 4.4   |
| Oman (million)                 | 3.3   | 3.6   | 3.9   | 4.2   |
| Qatar (million)                | 1.8   | 2.0   | 2.2   | 2.4   |
| United Arab Emirates (million) | 8.3   | 8.4   | 8.5   | 8.6   |
| Total (million)                | 18.5  | 19.3  | 20.1  | 20.8  |

Source: Market Consultant report

Strong demographic and economic growth across the GCC signifies a rise in wealth levels in a growing population. This creates an optimal scenario for consumer goods and luxury retailing.

### 3.3.2 Gold Jewellery Industry Overview

#### 3.3.2.1 Introduction

The popularity of traditional local tastes and a large Asian population means that the gold jewellery industry in the GCC exhibits different characteristics than in the Kingdom and Egypt. Wholesalers and retailers largely deal with imported jewellery, as large local manufacturing capacity is limited (except in the UAE). Designs cater to the traditional local taste on one hand (mostly large 21k gold jewellery) and on the other hand also cater to the tastes of the Indians present across the GCC, who are mostly interested in 21k and 22, Indian-designed gold jewellery.

### 3.3.2.2 Industry Value Chain

#### A) Sourcing

Gold in the GCC is mainly sourced from three channels:

- **Gold mines:** The main gold mines in the GCC are located in UAE, Kuwait, Oman and Qatar. The biggest gold refineries are based in UAE (e.g. Fujairah Gold, Gulf Gold Refineries).
- **Ore processing and scrap recovery:** Scrap gold is a major source for gold in the GCC. The UAE is the major scrap supplier in the region.
- **Banks and commodity traders:** Gold sourced from banks and commodity traders in the form of ingots or gold bars that would then be melted to use in the production process.

#### B) Design and Fabrication

- **Design:** Three primary design types are prevalent in the GCC. Traditional designs inspired by local craftsmanship and Arabian heritage are typically produced in 21k gold and appeal to GCC locals and Arab expatriates. This design category is currently experiencing a fashionable resurgence with the young population. The second, more fashion-inspired design type is primarily targeted to the Eastern expat communities (Indian, Pakistani etc.); these types of designs are primarily purchased for investment purposes. The third design type comprises fashionable and modern designs which mostly cater to the young customer segment across the GCC.
- **Fabrication:** In the gold jewellery industry, there exist three major manufacturing techniques:
- **Pressing:** The use of motorised or hand operated machinery specially designed for minting gold and silver using hydraulic force. The designs are usually basic, cheap and fast to manufacture.
- **Casting:** The process of creating a model pattern on wax that will then be used to hold hot metal (gold, silver etc.) to shape it into uniform items based on the model. It offers higher quality than pressing and can produce high volumes from the same mould.
- **Other advanced techniques such as 3D printing and micro-setting:** 3D printing is the process of making jewellery using a three-dimensional digital model. Micro-setting is a technique revolving around setting small diamonds of a uniform size in interlocked rows using high magnification. These techniques enable manufacturers to maintain tight control over the gold content of the jewellery pieces and to increase their labour service charge due to the exclusivity of the designs.

Jewellery fabrication either takes place in small workshops or in big manufacturing facilities. Local workshops use basic manufacturing techniques (e.g. casting, stamping), charge low to medium LSC and produce unbranded, low-end jewellery. Manufacturing facilities that use new technologies charge high LSC and produce both branded and unbranded medium/high-end jewellery.

#### C) Wholesale and Distribution

There are three wholesale configurations present in the jewellery market in the GCC:

- **Pure wholesalers:** Primarily work with retailers that do not have direct contact with manufacturers. These manufacturers can be either locally based in GCC or foreign (mainly in Far East Asia). Imported jewellery dominates the retail markets in Oman, Kuwait, Qatar and UAE. Moreover, retailers prefer to work with wholesalers since the latter can offer discounts and accept credit payments (rather than cash). Many wholesalers are setting up offices in Dubai, as it has become a centre for jewellery trade.
- **Fully integrated manufacturer and retailers:** Mainly in the UAE with players originating from India. These manufacturers have established vertical integration and private retail networks. The private retail outlets exclusively hold items produced by the managing manufacturer. Wholesalers in this category do not compete with wholesalers in other configurations, as they are not targeting the general jewellery retail market.
- **Manufacturer/wholesaler:** Manufacturers operating and managing their own private wholesale channels. This configuration allows for higher profit margins, since gold jewellery retail outlets typically drive down the overall profitability of the manufacturer due to the inherently low profit margins of privately owned retail shops. Manufacturers in this role focus on expanding their capacity to supply the wide network of independent jewellery retailers across the GCC. Only a limited number of players adopt this configuration in the GCC.

#### D) Retail

- **Gold souks:** Traditional gold souks across all GCC countries remain the main destination for gold jewellery purchases.
- **Shopping malls:** Big retail shopping malls or outlets, mainly located in big cities and urban areas that attract both local retailers and international retail brands.

### 3.3.3 Market Development

Over recent years, the gold and diamond jewellery market in the GCC countries (excluding the Kingdom) experienced strong growth, primarily driven by:

- **Higher disposable income levels:** The Gulf countries' rapidly expanding economy was reflected in a growing GDP/capita thereby yielding higher disposable income levels and stronger purchasing power.
- **Solid population growth:** The Gulf countries' population has been steadily growing at a rate of approximately 7.8% per annum since 2005G and is expected to stand at around 20.8 million in 2015G.
- **Decreasing gold prices:** Since 2012G, gold prices have been decreasing by approximately 11% per year. This decrease in gold price incentivised more consumers to purchase gold jewellery.
- **Increasing volumes of tourists:** The Gulf countries are receiving increasing numbers of tourists, which provides a solid source of foreign expenditure.

As a result, the gold jewellery market grew, in terms of total volume, at a compound annual growth rate of 9.5% between 2012G and 2015G and reached 87.6 tons in 2015G. The following table sets out the gold jewellery wholesale market development by volume (tons) in the GCC (excluding the Kingdom) in 2012G to 2015G:

**Table 3.33: Gold Jewellery Wholesale Market Development by Volume (Tons) in the GCC Excluding the Kingdom**

|                                    | 2012G | 2013G | 2014G   | 2015G |
|------------------------------------|-------|-------|---------|-------|
| Total gold jewellery volume (tons) | 66.7  | 85.2  | 75.8    | 87.6  |
| Year-on-year growth (%)            | -     | 27.7% | (11.0%) | 15.5% |

Source: Market Consultant report

### 3.3.4 Competitive Landscape

In the rest of the GCC, there are two Kingdom-based leading wholesalers/manufacturers in the market in terms of product quantity and regional geographic coverage. Of those, L'azurde Group is one of the players in the region, as it offers state-of-the-art manufacturing techniques and invests in various marketing campaigns. The remaining market share is shared among various local mid-tier family businesses that offer limited product ranges and are not expanded regionally across other GCC countries. Most of these wholesalers are based in Dubai, given that Dubai is the major jewellery trading centre in the region.

The following is an overview of selected regional and local players in the wholesale market in the GCC:

- **Taiba:** Family-owned gold and jewellery manufacturer and wholesaler based in the Kingdom with operations since 1989G. Taiba is characterised by its competitive prices and strong presence in low-weight sets. Taiba plans to open a new manufacturing facility in Dubai.
- **Samra:** A UAE-based jewellery wholesaler established in 1990G with a limited presence across the Middle East. Samra is run by a third generation of jewellers and operates a gold jewellery manufacturing plant in Dubai and a diamond jewellery manufacturing plant in Bangkok. Samra also operates thirteen retail showrooms in Dubai and Sharjah and employs 250 staff members.
- **Shattaf:** A UAE-based jewellery wholesaler operating since 1974G. Shattaf is the first jewellery company to start manufacturing operations in the UAE. Shattaf also distributes jewellery imported from Germany, Hong Kong, India, Malaysia, Pakistan, and Turkey. Shattaf currently operates a gold jewellery manufacturing plant in Sharjah and ten jewellery stores in UAE.

The following table sets out the wholesale jewellery competitive landscape in the GCC (excluding the Kingdom) as at September 2015G:

**Table 3.34: Wholesale Jewellery Competitive Landscape in the GCC Excluding the Kingdom**

| Name           | Competitive advantage  | Jewellery source   | Products   |
|----------------|--|--|--|
| L'azurde Group | <ul style="list-style-type: none"> <li>Advanced manufacturing capabilities</li> <li>Strong brand equity</li> <li>Low weight designs</li> </ul> | Own manufacturing facilities   | Gold and diamond jewellery                                   |
| Taiba          | <ul style="list-style-type: none"> <li>Strong legacy</li> <li>Low weight</li> <li>Low price (LSC)</li> </ul>                                   | Own manufacturing facilities   | Gold and diamond jewellery                                   |
| Samra          | <ul style="list-style-type: none"> <li>Strong presence in UAE</li> <li>Good relations with foreign manufacturers</li> </ul>                    | Own manufacturing facilities (Dubai and Bangkok) and branded jewellery (Versace) | Gold and diamond jewellery<br>Branded jewellery<br>Gemstones |
| Shattaf        | <ul style="list-style-type: none"> <li>Strong presence in UAE</li> <li>Strong heritage</li> </ul>  | Own manufacturing facilities, imports  | Gold and diamond jewellery                                   |

Source: Market Consultant report

The value proposition of retailers can be differentiated along four key dimensions:

- **Range of products offered:** Wider collection range leads to higher sales volumes as customers require a large variety of items to satisfy their changing preferences.
- **Branding:** Total brand awareness plays a big role in deciding which retailer is the first option for consumers.
- **After-sale service quality:** Maintenance and exchange options increase the popularity of retail shops as GCC clientele are increasingly exchanging jewellery and requesting new designs.
- **Geographic coverage:** The presence of retailers across the GCC is vital to maintain high sales volumes and to increase visibility.

## 4. Business Description

### 4.1 Overview

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

From a business perspective, L'azurde Group's core activities consist of the following three principal business segments (for further details, please see Section 4.7 ("Overview of L'azurde Group's Business")):

- **Manufacturing and production segment:** primarily consisting of the design and production of gold and diamond jewellery and precious and semi-precious stones;
- **Wholesale segment:** primarily consisting of the wholesale to more than 2,200 third-party independent retailers of gold and diamond jewellery in countries where L'azurde Group operates; and
- **Retail segment:** primarily consisting of the selling of diamond jewellery across its own "L'azurde" brand retail shops mainly in the Kingdom, Egypt and UAE.

As at 31 December 2015G, L'azurde Group operated directly in 18 wholesale offices within the Kingdom and in the United Arab Emirates, Qatar, and Egypt, with three manufacturing units (one in the Kingdom and two in Egypt), and 14 retail showrooms (located across the Kingdom, the United Arab Emirates and Egypt). In addition, L'azurde Group sells its products in 52 countries through a network of exclusive and non-exclusive distributors, wholesalers and retailers (for further details, please see Section 4.7.6 ("Geographic Locations and Operations")).

As at 31 December 2015G, L'azurde Group employed a total of 2,777 people across all the countries where it operates. More information can be found in Section 5.7 ("Employees").

As at 31 December 2015G, L'azurde Group's total equity was SAR 491.0 million compared to SAR 483 million and SAR 466 million as at 31 December 2014G and 2013G, respectively, with total assets of SAR 1.77 compared to SAR 1.65 billion and SAR 1.38 billion as at 31 December 2014G and 2013G, respectively.

In terms of operational revenue, L'azurde Group generated consolidated income from operations in the year ended 31 December 2015G of SAR 149.5 million compared to SAR 130.6 million and SAR 118 million for the years ended 31 December 2014G and 2013G, respectively. The consolidated net income in the year ended 31 December 2015G is SAR 100.6 million compared to SAR 86.3 million and SAR 74 million for the years ended 31 December 2014G and 2013G, respectively.

### 4.2 Corporate History and Evolution of Capital

The Company was originally established as a sole establishment owned by Mr Abdulaziz Saleh Al Othaim under the name of the Saudi Gold & Pearl Factory with a capital of SAR 18,500,000, and registered in the commercial register in the city of Riyadh under commercial registration No. 1010091134, dated 18/7/1412H (corresponding to 23/1/1992G). On 4/2/1415H (corresponding to 13/7/1994G), the "L'azurde" trademark was first registered and, on 18/8/1419H (corresponding to 19/12/1997G), the name of the establishment was changed to L'azurde Gold & Jewellery Factory".

The establishment of L'azurde Gold & Jewellery Factory and a number of its branches were changed to a Saudi closed joint stock company under the name of L'azurde Company for Jewelry pursuant to Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006G) under commercial registration No. 1010221531, dated 26/6/1427H (corresponding to 22/7/2006G) issued in Riyadh, the Kingdom, with a share capital of SAR 200,000,000, divided into 4,000,000 ordinary shares with a nominal value of SAR 50 per share as the capital increase was covered by capitalisation of SAR 47,500,000 representing total transferred capital of the establishment's branches as well as capitalisation of SAR 134,000,000 from the retained earnings of the establishment. The shares of the Company, when converted to a closed joint stock company, were distributed as follows:

**Table 4.1: The Shareholders of the Company as at 4/3/1427H (corresponding to 2/4/2006G)**

| Shareholder                  | Number of Shares | Ownership Percentage |
|------------------------------|------------------|----------------------|
| Abdulaziz Saleh Al Othaim    | 2,240,000        | 56%                  |
| L'azurde Holding Company     | 1,400,000        | 35%                  |
| Saleh Abdulaziz Al Othaim    | 40,000           | 1%                   |
| May Abdulaziz Al Othaim      | 40,000           | 1%                   |
| Nourah Abdulaziz Al Othaim   | 40,000           | 1%                   |
| Abdullah Abdulaziz Al Othaim | 40,000           | 1%                   |
| Khalid Abdulaziz Al Othaim   | 40,000           | 1%                   |
| Mohammad Abdulaziz Al Othaim | 40,000           | 1%                   |
| Rabea'a Abdulaziz Al Othaim  | 40,000           | 1%                   |
| Nawaf Abdulaziz Al Othaim    | 40,000           | 1%                   |
| Folwah Abdulaziz Al Othaim   | 40,000           | 1%                   |
| Total                        | 4,000,000        | 100%                 |

Source: The Company

The following table shows the shareholders of L'azurde Holding Company at the same period:

**Table 4.2: The shareholders of L'azurde Holding Company as at 4/3/1427H (corresponding to 2/4/2006G)**

| Shareholder               | Ownership Percentage |
|---------------------------|----------------------|
| Abdulaziz Saleh Al Othaim | 95%                  |
| Saleh Abdulaziz Al Othaim | 5%                   |
| Total                     | 100%                 |

Source: The Company

On 5/11/1423H (corresponding to 8/1/2003G), OroEgypt Company for Manufacturing Precious Metals ("OroEgypt"), a joint stock company with paid capital of EGP 20,000,000 (equivalent to SAR 9,580,338), was established in Egypt by Mr Abdulaziz Saleh Al Othaim, as the principal shareholder of the Company at that time, and other founders (names are shown in the table below). It started operations on 21/11/1423H (corresponding to 23/1/2003G). The main activities at that time were limited to manufacturing, production, forming and forging golden wares, jewellery, precious and semi-precious stones. The following table shows the ownership structure of OroEgypt upon incorporation:

**Table 4.3: OroEgypt Shareholders as at 05/11/1423H (Corresponding to 08/01/2003G)**

| Shareholder                 | Percentage of Ownership |
|-----------------------------|-------------------------|
| Mohamed Sayed Mohammad Omar | 50%                     |
| Abdulaziz Saleh Al Othaim   | 25%                     |
| Rafiq Ahmed Mohammed Abbas  | 10%                     |
| Maha Mahmoud Ahmed Mousa    | 3.75%                   |
| Fatma Mahmoud Ahmed Mousa   | 3.75%                   |
| Wafaa Mahmoud Ahmed Mousa   | 3.75%                   |
| Eman Mahmoud Ahmed Mousa    | 3.75%                   |
| Total                       | 100%                    |

Source: The Company

On 8/3/1428H (corresponding to 27/3/2007G), L'azurde Group acquired 100% of direct and indirect ownership interests in OroEgypt Company (for more information about OroEgypt, please see Section 4.3.2.7 ("OroEgypt Company for Manufacturing Precious Metals")).

On 10/9/1428H (corresponding to 22/9/2007G), the capital of the Company was increased from SAR 200,000,000 divided into 4,000,000 ordinary shares with a nominal value of SAR 50 per share, to



SAR 300,000,000 divided into 30,000,000 ordinary shares with a nominal value of SAR 10 per share, through a capitalisation of SAR 100,000,000 from the Company's retained earnings. The shares of the Company when its capital was increased were distributed as follows:

**Table 4.4: The Shareholders of the Company as at 1/8/1428H (corresponding to 14/8/2007G)**

| Shareholder                  | Number of Shares | Ownership Percentage |
|------------------------------|------------------|----------------------|
| Abdulaziz Saleh Al Othaim    | 16,800,000       | 56%                  |
| L'azurde Holding Company     | 10,500,000       | 35%                  |
| Saleh Abdulaziz Al Othaim    | 300,000          | 1%                   |
| May Abdulaziz Al Othaim      | 300,000          | 1%                   |
| Nourah Abdulaziz Al Othaim   | 300,000          | 1%                   |
| Abdullah Abdulaziz Al Othaim | 300,000          | 1%                   |
| Khalid Abdulaziz Al Othaim   | 300,000          | 1%                   |
| Mohammad Abdulaziz Al Othaim | 300,000          | 1%                   |
| Rabea'a Abdulaziz Al Othaim  | 300,000          | 1%                   |
| Nawaf Abdulaziz Al Othaim    | 300,000          | 1%                   |
| Folwah Abdulaziz Al Othaim   | 300,000          | 1%                   |
| Total                        | 30,000,000       | 100%                 |

Source: The Company

On 20/9/1429H (corresponding to 20/3/2008G), Mr Abdulaziz Saleh Al Othaim transferred 10,500,000 shares (representing 35% of his total shares in the Company) to L'azurde Holding, increasing its stake in the Company to 70% or 21,000,000 Shares out of a total of 30,000,000 Shares. The shares of the Company were distributed as follows:

**Table 4.5: The Shareholders of the Company as at 20/9/1429H (corresponding to 20/9/2008G)**

| Shareholder                  | Number of Shares | Ownership Percentage |
|------------------------------|------------------|----------------------|
| L'azurde Holding Company     | 21,000,000       | 70%                  |
| Abdulaziz Saleh Al Othaim    | 6,300,000        | 21%                  |
| Saleh Abdulaziz Al Othaim    | 300,000          | 1%                   |
| May Abdulaziz Al Othaim      | 300,000          | 1%                   |
| Nourah Abdulaziz Al Othaim   | 300,000          | 1%                   |
| Abdullah Abdulaziz Al Othaim | 300,000          | 1%                   |
| Khalid Abdulaziz Al Othaim   | 300,000          | 1%                   |
| Mohammad Abdulaziz Al Othaim | 300,000          | 1%                   |
| Rabea'a Abdulaziz Al Othaim  | 300,000          | 1%                   |
| Nawaf Abdulaziz Al Othaim    | 300,000          | 1%                   |
| Folwah Abdulaziz Al Othaim   | 300,000          | 1%                   |
| Total                        | 30,000,000       | 100%                 |

Source: The Company

The following table shows the partners of L'azurde Holding Company at the same period were as follows:

**Table 4.6: The Partners of L'azurde Holding Company as at 20/9/1429H (corresponding to 20/9/2008G)**

| Shareholder               | Ownership Percentage |
|---------------------------|----------------------|
| Abdulaziz Saleh Al Othaim | 95%                  |
| Saleh Abdulaziz Al Othaim | 5%                   |
| Total                     | 100%                 |

Source: The Company

On 10/1/1430H (corresponding to 7/1/2009G), the Shareholders of the Company transferred a total of 8,980,000 shares (representing 29.9% of the total shares of the Company) to L'azurde Holding, and, on 29/4/1430H (corresponding to 25/4/2009G), L'azurde Holding subsequently transferred 6,000 shares (representing 0.02% of the total shares of the Company) to the Directors to be held as Qualification Shares. The shares of the Company were distributed as follows:

**Table 4.7: The Shareholders of the Company as at 29/4/1430H (Corresponding to 25/4/2009G)**

| Shareholder <sup>1</sup>     | Number of Shares        | Ownership Percentage <sup>2</sup> |
|------------------------------|-------------------------|-----------------------------------|
| L'azurde Holding Company     | 29,799,000 <sup>3</sup> | 99.33%                            |
| Abdulaziz Saleh Al Othaim    | 50,250                  | 0.1675%                           |
| Saleh Abdulaziz Al Othaim    | 50,250                  | 0.1675%                           |
| Abdullah Abdulaziz Al Othaim | 50,250                  | 0.1675% <sup>2</sup>              |
| Khalid Abdulaziz Al Othaim   | 50,250                  | 0.1675%                           |
| Total                        | 30,000,000              | 100.0%                            |

Source: The Company

1- The Shareholders listed in this table exclude nonshareholding Directors holding Qualification Shares. Please see Section 5.1.1 ("Composition of the Board of Directors") for details regarding the Qualification Shares held by each Director.

2- Shareholding rates are rounded.

3- The number of Shares includes the Qualification Share held by non-shareholding Directors.

The following table shows the shareholders of L'azurde Holding Company at the same period:

**Table 4.8: The shareholders of L'azurde Holding Company as at 29/4/1430H (Corresponding to 25/4/2009G)**

| Shareholder <sup>1</sup>      | Ownership Percentage |
|-------------------------------|----------------------|
| Gulf Fifth Gemstone Saudi LLC | 95%                  |
| Abdulaziz Saleh Al Othaim     | 5%                   |
| Total                         | 100.0%               |

Source: The Company

In 2009G, the consortium (the "Consortium") of Gulf Growth Gold Holding (owned by both of Investcorp Gulf Opportunity Fund Company 1 and Investcorp GO Company 4), Fidelity Invest Owned by The National Investor PJS - One Man Company LLC (owned by The National Investor Company) and EASTGATE MENA SPV5 HOLDING (owned by EASTGATE MENA SPV6 HOLDING) acquired indirectly, through Gulf Investors Gold Holding Company, a majority stake of 70% in the Company pursuant to the purchase agreement made between the Consortium and each of Abdulaziz Saleh Al-Othaim and Saleh Abdulaziz Al-Othaim. In 2010G, the Consortium acquired a further 7.5% in the Company from Abdulaziz Saleh Al-Othaim and Saleh Abdulaziz Al-Othaim as per the terms of the purchase agreement between the Consortium and Mr Abdulaziz Saleh Al Othaim. Therefore, the ownership of Gulf Investors Gold Holding Company (on behalf of the Consortium) is a beneficial ownership of 77.5% stake, as at the date of this Prospectus (for further details on share ownership structure, see Section 4.4.2.5 ("L'azurde Holding Company")).

On 11/9/1433H (corresponding to 30/7/2012G), L'azurde Group extended its existence in Egypt through acquiring a 100% indirect interest in L'azurde Egypt, becoming its second production unit in Egypt. The main activities at that time were establishing and operating a factory to produce golden wares, jewellery and precious stones. (For further details on L'azurde Egypt, please see Section 4.3.2.4 ("L'azurde Egypt for Jewellery, LLC")).

On 4/7/1436H (corresponding to 23/4/2015G), the capital of the Company was increased from SAR 300,000,000 to SAR 430,000,000, divided into 43,000,000 ordinary shares by way of issuing 13,000,000

new shares at a par value of SAR 10 per share, through a capitalisation of: (i) SAR 52,509,121 from the Company's statutory reserve; and (ii) SAR 77,490,879 from the Company's retained earnings. The following table shows the current distribution of shares in the Company:

**Table 4.9: The Shareholders of the Company as at the Date of this Prospectus**

| Shareholder                               | Number of Shares        | Ownership Percentage <sup>1</sup> |
|---|-------------------------|-----------------------------------|
| L'azurde Holding Company                  | 42,970,332 <sup>2</sup> | 99.93%                            |
| Abdullah Abdulaziz Al Othaim <sup>3</sup> | 8,167 <sup>4</sup>      | 0.019%                            |
| Abdulaziz Saleh Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                            |
| Saleh Abdulaziz Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                            |
| Khalid Abdulaziz Al Othaim <sup>3</sup>   | 7,167                   | 0.017%                            |
| Total                                     | 43,000,000              | 100%                              |

Source: The Company

1- The shareholding percentages are rounded.

2- The number of Shares includes the Qualification Share held by non-shareholding Directors of 7,000 shares except for qualification shares held by Mr Abdullah Abdulaziz Al Othaim (a shareholding Director). Pursuant to the Company's By-Laws, Directors that shall be appointed post offering will own Qualification Shares from the listed shares on the Saudi Stock Exchange. Please see Section 5.1.1 ("Composition of the Board of Directors") for details regarding the Qualification Shares held by each Director.

3- Those Shareholders are the legal owners of the Shares set opposite to their names. However, and except for Qualification Shares held by Mr Abdullah Abdulaziz Al Othaim, those Shares are beneficially owned by L'azurde Holding.

4- Such Shares include the Shares held by Mr Abdullah Abdulaziz Al Othaim as Qualification Shares amounting to 1,000 shares.

On 23/12/1436H (corresponding to 6/10/2015G), Abdulaziz Saleh Al Othaim transferred five ownership interests in L'azurde Holding (representing 5% of its capital) to Khalifa Hasan Khalifa Mohamed Al Jalahma. The following table shows the current ownership structure of L'azurde Holding:

**Table 4.10: The Partners of L'azurde Holding Company as at the Date of this Prospectus**

| Shareholder                              | Ownership Percentage |
|--|----------------------|
| Gulf Fifth Gemstone Saudi LLC            | 95%                  |
| Khalifa Hasan Khalifa Mohamed Al Jalahma | 5%                   |
| Total                                    | 100%                 |

Source: The Company

On 21/5/1437H (corresponding to 1/3/2016G), L'azurde Holding Company transferred 2,000 shares (representing 0.00465% of the Company's total shares) to two board members recently appointed (Abdul Kareem Assad Abu Alnasr and Amin Mohamed Akef Al-Maghrabi).

The key historical changes and events are summarised as follows:

**Table 4.11: The Key Historical Changes and Events**

| Date  | Change  |
|-------|---|
| 1992G | The Company was originally established as a sole establishment under the name of "the Saudi Gold & Pearl Factory Owned by Mr Abdulaziz Saleh Al Othaim" in Riyadh with a capital of SAR 18,500,000.   |
| 1993G | The first retail showroom was opened in Riyadh, Kingdom of Saudi Arabia.  |
| 1994G | Registration of the "L'azurde" trademark for the first time   |
| 1995G | "L'azurde" brand was launched in Jeddah, Kingdom of Saudi Arabia.   |
| 1997G | The establishment's name was changed to "L'azurde Gold & Jewellery Factory" and its capacity was expanded to 15 tons in Riyadh factory.   |
| 2003G | Opened the first showroom outside the Kingdom in Abu Dhabi, UAE.  |
| 2003G | OroEgypt Company was established by Mr Abdulaziz Al Othaim (the main shareholder in the company) as the first factory in Egypt with a total capacity of 10 tons   |
| 2005G | The International Company for Jewellery Manufacturing was founded by Mr Syed Ahmed Abdul Aty, Mr Mohamed Ahmed Amin and Mr Khalil Timraz Abu El Majed (currently known L'azurde Egypt for Jewellery LLC).   |
| 2006G | The establishment of "L'azurde Gold & Jewellery Factory" and five of its branches was changed to a closed joint stock company under the name "L'azurde Company for Jewelry" with a capital of SAR 200,000,000 divided into 4,000,000 ordinary shares with a nominal value of SAR 50 per share as the capital increase was covered by capitalisation of SAR 47,500,000, representing total transferred capital of the establishment branches as well as capitalisation of SAR 134,000,000 from the retained earnings of the establishment. |

| Date  | Change  |
|-------|---|
| 2007G | The capital of the Company was increased from SAR 200,000,000 to SAR 300,000,000 through a capitalisation of SAR 100,000,000 from the Company's retained earnings.  |
| 2007G | L'azurde Group signed an endorsement with Lebanese superstar Elissa.  |
| 2007G | L'azurde Group acquired a 100% direct and indirect interest in OroEgypt.  |
| 2008G | Mr Abdulaziz Saleh Al Othaim transferred 10,500,000 shares (representing 35% of the total shares of the Company) to L'azurde Holding.   |
| 2009G | The Shareholders of the Company transferred a total of 8,980,000 shares (representing 29.9% of the total shares of the Company) to L'azurde Holding.  |
| 2009G | The consortium comprising of Investcorp, Eastgate and The National Investor companies acquired an indirect interest of 77.5% in L'azurde Holding capital.   |
| 2012G | Branches were opened in Al Ain, UAE.  |
| 2012G | A second factory with a total capacity of 15 tons was established in Egypt, by acquisition of a 100% indirect interest in L'azurde Egypt.   |
| 2015G | The Qatar wholesale branch was launched, in addition to opening another retail showroom in the Kingdom of Saudi Arabia.   |
| 2015G | The capital of the Company was increased from SAR 300,000,000 to SAR 430,000,000, by way of issuing 13,000,000 new shares through a capitalisation of: (i) SAR 52,509,121 from the Company's statutory reserve; and (ii) SAR 77,490,879 from the Company's retained earnings. |

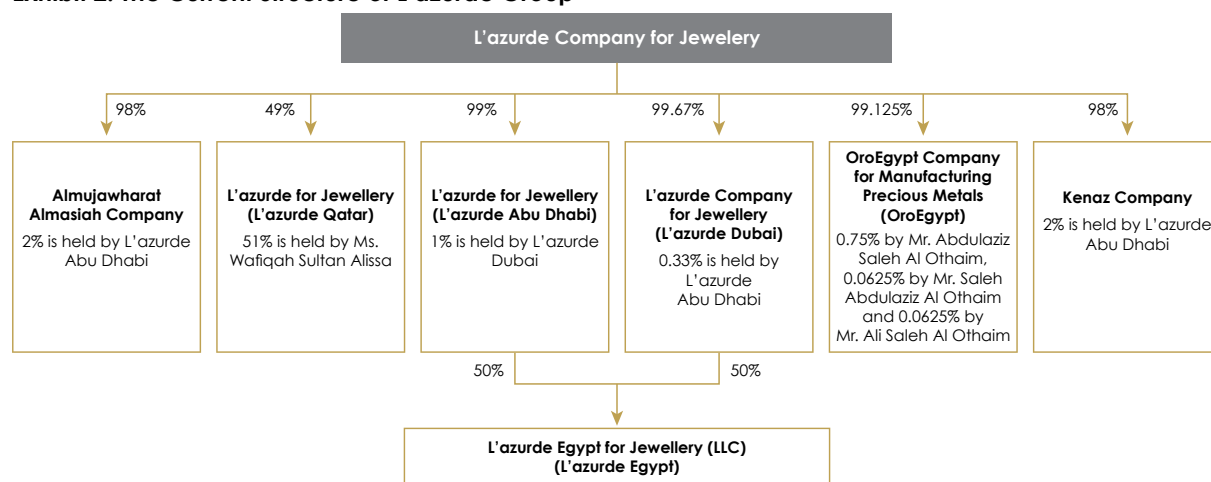
Source: The Company

## 4.3 L'azurde Group Structure

### 4.3.1 Overview

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

**Exhibit 2: The Current Structure of L'azurde Group**



Source: The Company

The table below lists all the direct and indirect Subsidiaries and indicates the Company's direct and indirect interest therein:

**Table 4.12: Details of the Company's Direct and Indirect Subsidiaries**

| Name of Subsidiary                                 | Country of Incorporation | Direct Interest (%) | Indirect Interest (%) | Remaining Ownership   |
|--|--------------------------|---------------------|-----------------------|---|
| Almujawharat Almasiah Company LLC                  | Saudi Arabia             | 98%                 | 2%                    | N/A   |
| Kenaz Company LLC                                  | Saudi Arabia             | 98%                 | 2%                    | N/A   |
| L'azurde Company for Jewellery (LLC) <sup>1</sup>  | United Arab Emirates     | 99.67%              | 0.33%                 | N/A   |
| L'azurde Egypt for Jewellery (LLC)                 | Egypt                    | -                   | 100%                  | N/A   |
| L'azurde for Jewellery LLC <sup>2</sup>            | United Arab Emirates     | 99%                 | 1%                    | N/A   |
| L'azurde for Jewellery LLC <sup>3</sup>            | Qatar                    | 49%                 | -                     | 51% is held by Ms Wafiqah Sultan Al Essa  |
| OroEgypt Company for Manufacturing Precious Metals | Egypt                    | 99.125%             | 0.875%                | 0.75% is held by Abdulaziz Saleh Al Othaim, 0.0625% is held by Saleh Abdulaziz Al Othaim and 0.0625% is held by Ali Saleh Al Othaim |

Source: The Company

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

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

3- L'azurde for Jewellery is a limited liability company incorporated in the State of Qatar.

## 4.3.2 Overview of Subsidiaries

### 4.3.2.1 Almujawharat Almasiah Company

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

**Table 4.13: The Current Ownership Structure of Almujawharat Almasiah**

| Shareholders                                     | No. of Shares | Nominal Value per Share (SAR) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|-------------------------------|-----------------------|----------------------|
| L'azurde Company for Jewellery                   | 49            | 1,000                         | 49,000                | 98%                  |
| L'azurde Company for Jewellery -LLC <sup>1</sup> | 1             | 1,000                         | 1,000                 | 2%                   |
| Total  | 50            | 1,000                         | 50,000                | 100%                 |

Source: The Company

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

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

### 4.3.2.2 Kenaz Company

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

**Table 4.14: The Current Ownership Structure of Kenaz**

| Shareholders                                    | No. of Shares | Nominal Value per Share (SAR) | Value of Shares (SAR) | Ownership Percentage |
|---|---------------|-------------------------------|-----------------------|----------------------|
| L'azurde Company for Jewellery                  | 49            | 1,000                         | 49,000                | 98%                  |
| L'azurde Company for Jewellery LLC <sup>1</sup> | 1             | 1,000                         | 1,000                 | 2%                   |
| Total   | 50            | 1,000                         | 50,000                | 100%                 |

Source: The Company

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

The principal activities of Kenaz include the wholesale and retail trading in, and the export and import of, sunglasses, watches, accessories, pens, perfumes and leather products. Kenaz was established primarily for the purpose of holding shares in certain Subsidiaries and does not exercise any trading activities as at the date of this Prospectus.

### 4.3.2.3 L'azurde Company for Jewellery (Dubai)

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

**Table 4.15: The Current Ownership Structure of L'azurde Dubai**

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

Source: The Company

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

The principal activities of L'azurde Dubai include trading in jewellery, pearls, precious and semi-precious stones, watches and their spare parts and the forging of gold and jewellery. As at the date of this Prospectus, L'azurde Dubai holds an ownership interest of EGP 46,142,500 (equivalent to SAR 22,103,132) in L'azurde Egypt (representing 50% of its capital).

#### 4.3.2.4 L'azurde Egypt for Jewellery, LLC

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

**Table 4.16: The Current Ownership Structure of L'azurde Egypt**

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

Source: The Company

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

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

The principal activities of L'azurde Egypt include the establishment and operation of a plant for the design, manufacturing, distribution and sale of gold and diamond jewellery. As at the date of this Prospectus, L'azurde Egypt operates a manufacturing unit and three branches across Egypt.

#### 4.3.2.5 L'azurde Company for Jewellery (Abu Dhabi)

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

**Table 4.17: The Current Ownership Structure of L'azurde Abu Dhabi**

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

Source: The Company

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

The principal activities of L'azurde Abu Dhabi include the retail trade in jewellery, diamond and precious and semi-precious stone wares and watches. As at the date of this Prospectus, L'azurde Abu Dhabi holds one share in Almujaaharat Almasiah (representing 2% of its capital), one share in Kenaz (representing 2% of its capital) and one share in L'azurde Dubai (representing 0.33% of its capital), as well as an ownership interest of EGP 46,142,500 (equivalent to SAR 22,103,132) in L'azurde Egypt (representing 50% of its capital).



#### 4.3.2.6 L'azurde for Jewellery (Qatar)

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

**Table 4.18: The Current Ownership Structure of L'azurde Qatar**

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

Source: The Company

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

#### 4.3.2.7 OroEgypt Company for Manufacturing Precious Metals

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

**Table 4.19: The Current Ownership Structure of OroEgypt**

| Shareholders                           | No. of Shares | Nominal Value per Share (EGP) | Value of Shares (EGP) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|-------------------------------|-----------------------|-----------------------|----------------------|
| L'azurde Company for Jewellery         | 1,586,000     | 25                            | 39,650,000            | 18,993,021            | 99.125%              |
| Abdulaziz Saleh Al Othaim <sup>1</sup> | 12,000        | 25                            | 300,000               | 143,705               | 0.750%               |
| Saleh Abdulaziz Al Othaim <sup>1</sup> | 1,000         | 25                            | 25,000                | 11,975                | 0.0625%              |
| Ali Saleh Al Othaim                    | 1,000         | 25                            | 25,000                | 11,975                | 0.0625%              |
| Total                                  | 1,600,000     | 25                            | 40,000,000            | 19,160,676            | 100.00%              |

Source: The Company

1- Those Shareholders are the legal owners of the Shares set opposite their names. However, those Shares are beneficially owned by the Company.

The principal activities of OroEgypt include the establishment and operation of a plant for the manufacturing of jewellery, gold wares and precious stones of all types and the establishment of a training centre. As at the date of this Prospectus, OroEgypt operates a manufacturing unit in Qalyubia, and six branches across Egypt.

L'azurde Group plans to concentrate most of its operations and future expansions in L'azurde Egypt by increasing the utilisation of current manufacturing capacity and purchasing new advanced production assets in addition to building a new factory along with additional labour to reach manufacturing capacity of 15 tons.

During 2015G, L'azurde Group has started an ongoing process of unifying and combining all business activities in Egypt under L'azurde Egypt, a tax exempted company until the end of 2018G, while OroEgypt for Manufacturing Precious Metals in the meantime will focus on producing limited products, while it sold most of its outdated assets. This is because L'azurde Group is trying to avoid duplicate productive assets and services and administrative centres in several production and sale units, in order to achieve lower costs, higher utilisation rates of the assets and economic savings, which would increase the company's competitive edge in Egypt.

## 4.4 Current Shareholding Structure

### 4.4.1 Overview

The current capital of the Company is SAR 430,000,000 divided into 43,000,000 ordinary Shares with a fully paid nominal value of SAR 10 per Share.

The following table sets out the shareholding and capital structure of the Company before and after the Offering:

**Table 4.20: Direct Ownership Structure of the Company Pre and Post Offering**

| Shareholder <sup>1</sup>                  | Pre-Offering            |                               |                       | Post-Offering           |                               |                       |
|---|-------------------------|-------------------------------|-----------------------|-------------------------|-------------------------------|-----------------------|
|   | No. of Shares           | Shareholding (%) <sup>1</sup> | Value of Shares (SAR) | No. of Shares           | Shareholding (%) <sup>1</sup> | Value of Shares (SAR) |
| L'azurde Holding Company                  | 42,970,332 <sup>2</sup> | 99.93%                        | 429,703,320           | 30,099,000 <sup>2</sup> | 69.998%                       | 300,990,000           |
| Abdullah Abdulaziz Al Othaim <sup>3</sup> | 8,167 <sup>4</sup>      | 0.019%                        | 81,670                | 1,000 <sup>4</sup>      | 0.0023%                       | 10,000                |
| Abdulaziz Saleh Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                        | 71,670                | -                       | -                             | -                     |
| Saleh Abdulaziz Al Othaim <sup>3</sup>    | 7,167                   | 0.017%                        | 71,670                | -                       | -                             | -                     |
| Khalid Abdulaziz Al Othaim <sup>3</sup>   | 7,167                   | 0.017%                        | 71,670                | -                       | -                             | -                     |
| Public                                    | -                       | -                             | -                     | 12,900,000              | 30%                           | 129,000,000           |
| Total                                     | 43,000,000              | 100%                          | 430,000,000           | 43,000,000              | 100%                          | 430,000,000           |

Source: The Company

1- The shareholding percentages are rounded.

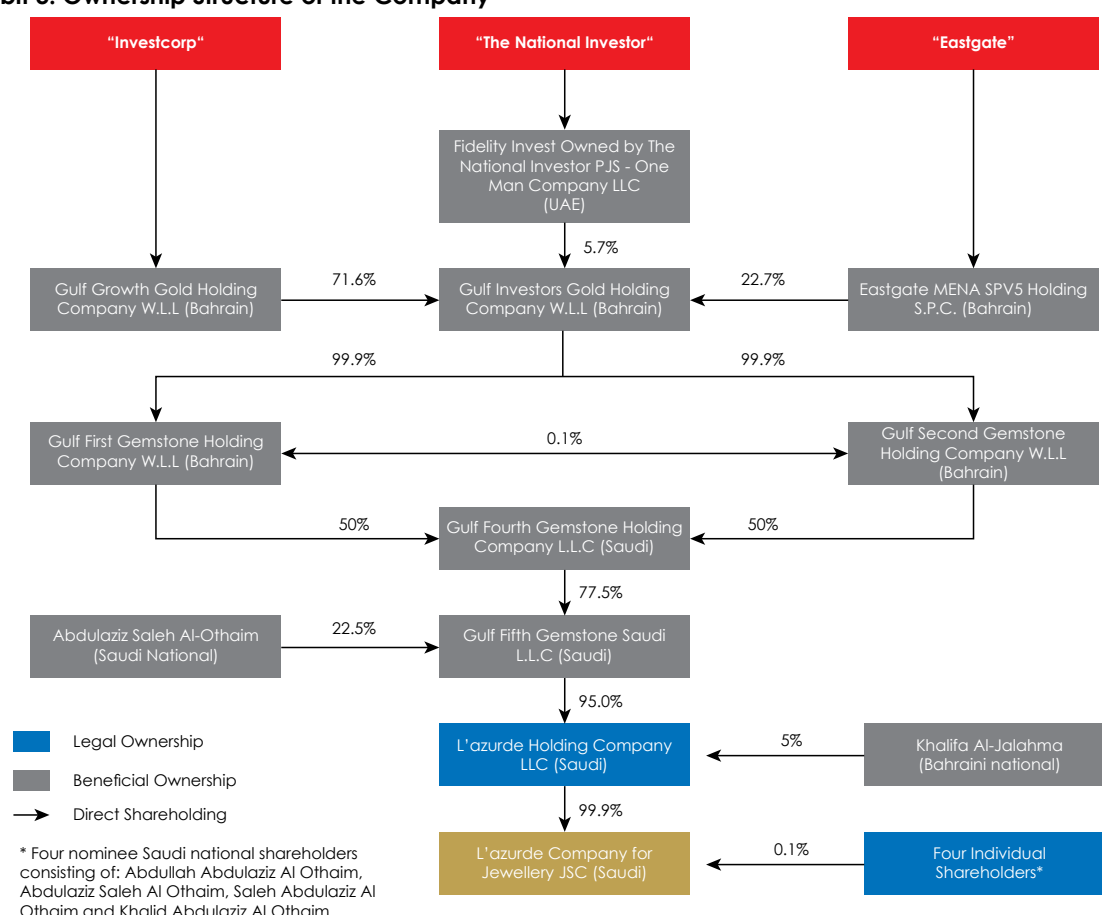
2- The number of Shares include the Qualification Shares held by non-shareholding Directors amounting to 7,000 shares (for clarity, Mr Abdullah Abdulaziz Al Othaim is a shareholding Director). Pursuant to the Company's By-Laws, Directors that shall be appointed post offering will own Qualification Shares from the listed shares on the Saudi Stock Exchange. Please see Section 5.1.1 ("Composition of the Board of Directors") for details regarding the Qualification Shares held by each Director.

3- Those Shareholders are the legal owners of the Shares set opposite their names. However, and except for Qualification Shares held by Mr Abdullah Abdulaziz Al Othaim, those Shares are beneficially owned by L'azurde Holding.

4- The number of Shares includes the Shares held as Qualification Shares.

The following chart sets out the ownership structure of the Company:

### Exhibit 3: Ownership Structure of the Company



Note: The ownership structure above has been presented in a simplified manner and more detailed information regarding the ownership structure above Gulf Growth Gold Holding Company W.L.L. (indicated by "Investcorp"), Eastgate MENA SPV5 Holding S.P.C. (indicated by "Eastgate" above) and Fidelity Invest Owned by The National Investor PJS - One Man Company LLC (indicated by "The National Investor" above) have been included in Exhibits A-1, A-2 and A-3 in Appendix A.

Kindly refer to Annex A for a summary overview of the legal entities in the ownership structure of the Company until Gulf Investors Gold Holding Company W.L.L. as at the date of this Prospectus.

In 2009G, a consortium comprising of Gulf Growth Gold Holding Company W.L.L. (co-owned by Investcorp Gulf Opportunity Fund Company I B.S.C.(c) and Investcorp GO Company 4 W.L.L.), Fidelity Invest Owned by The National Investor PJS - One Man Company LLC (owned by The National Investor Pvt. JSC) and Eastgate MENA SPV5 Holding S.P.C. (owned by Eastgate MENA SPV6 Holding W.L.L.) (collectively, the "Consortium"), acquired indirectly through Gulf Investors Gold Holding Company W.L.L. a majority stake of 70% in the Company pursuant to a share purchase agreement between the Consortium, Abdulaziz Saleh Al Othaim and Saleh Abdulaziz Al Othaim. In 2010G, the Consortium increased its shareholding by 7.5% in the Company from the selling shareholders pursuant to the terms of the same share purchase agreement between the Consortium, Abdulaziz Saleh Al Othaim and Saleh Abdulaziz Al Othaim. Therefore, Gulf Investors Gold Holding Company W.L.L. beneficially owns as at the date of this Prospectus a 77.5% stake on behalf of the Consortium (for further details on Gulf Investors Gold Holding W.L.L. and Gulf Fifth Gemstone Saudi, please see below).

The Consortium entered into a consortium investment agreement (the "Consortium Agreement") at the time of the acquisition of the Company in 2009G. The Consortium Agreement was put in place to allow the three members of the Consortium to manage shareholder matters related to the Company in a coordinated fashion in the best interests of the Company, and also to coordinate regarding an initial public offering of the Company after a certain initial period of time. Except in connection with the Offering, the Consortium members have not agreed, in the Consortium Agreement or otherwise, on the timing and manner of divestment of the Shares in the Company by L'azurde Holding on behalf of the Consortium members, including in connection with timing of the expiration of the individual investment

funds that are part of the ownership structure of the Consortium members and in any case no such divestment can take place prior to the expiration of the Lock-up Period applicable to L'azurde Holding, and will be subject to obtaining prior approval of the CMA in accordance with CMA regulations. Nothing in the Consortium Agreement addresses the transfer of Shares to the Consortium members and therefore any beneficial owners of Shares above the Consortium members, but in any case any such transfer would have to be in compliance with Saudi Arabian limitations on foreign ownership in shares of companies listed on Tadawul, could only take place after the expiration of the Lock-up Period and would be subject to a prior approval from the CMA in accordance with CMA regulations. No dividends can be paid by Gulf Investors Gold Holding Company W.L.L. or any company controlled, directly or indirectly, by Gulf Investors Gold Holding Company W.L.L., unless approved by the board of directors of Gulf Investors Gold Holding Company W.L.L. Voting by the shareholders of Gulf Investors Gold Holding Company W.L.L. is by simple majority, except for certain reserved matters where a 75% majority is required (for example, in connection with the acquisition or disposal of the Shares in the Company by L'azurde Holding Company LLC or the adoption or approval of any strategy, budget or business plan) or when unanimity is required (in connection with amending the Articles of Association of Gulf Investors Gold Holding Company W.L.L., or the liquidation or winding up of Gulf Investors Gold Holding Company W.L.L. or any company controlled, directly or indirectly, by Gulf Investors Gold Holding Company W.L.L.).

The following tables set out the details of Shareholders directly or beneficially holding 5% or more of the Shares in the Company:

**Table 4.21: Details of Shareholders Directly Holding 5% or More Shares in the Company**

| Shareholder              | Pre-Offering            |                               |                       | Post-Offering           |                               |                       |
|--------------------------|-------------------------|-------------------------------|-----------------------|-------------------------|-------------------------------|-----------------------|
|                          | No. of Shares           | Shareholding (%) <sup>1</sup> | Value of Shares (SAR) | No. of Shares           | Shareholding (%) <sup>1</sup> | Value of Shares (SAR) |
| L'azurde Holding Company | 42,970,332 <sup>2</sup> | 99.93%                        | 429,703,320           | 30,099,000 <sup>2</sup> | 69.998%                       | 300,990,000           |

Source: The Company

1- The shareholding percentages are rounded.

2- The number of Shares include the Qualification Share held by non-shareholding Directors amounting to 7,000 Shares (for clarity, Mr Abdullah Abdulaziz Al Othaim is a shareholding Director). Please see Section 5.1.1` ("Composition of the Board of Directors") for details regarding the Qualification Shares held by each Director. Please note also that the remaining 0.07% of Shares in the Company is held by four nominees on behalf of L'azurde Holding such that L'azurde Holding owns 100% of the beneficial economic interest in the Company.

**Table 4.22: Details of Shareholders Beneficially Holding 5% or More Shares in the Company**

| Shareholder   | Pre-Offering  |                               |                       | Post-Offering |                               |                       |
|---|---------------|-------------------------------|-----------------------|---------------|-------------------------------|-----------------------|
|   | No. of Shares | Shareholding (%) <sup>1</sup> | Value of Shares (SAR) | No. of Shares | Shareholding (%) <sup>1</sup> | Value of Shares (SAR) |
| Gulf Growth Gold Holding Company W.L.L. <sup>2</sup>                                  | 23,860,700    | 55.49%                        | 238,607,000           | 16,702,490    | 38.84%                        | 167,024,900           |
| Abdulaziz Saleh AlOthaim  | 9,675,000     | 22.50%                        | 96,750,000            | 6,772,500     | 15.75%                        | 67,725,000            |
| Eastgate MENA SPV5 Holding S.P.C. <sup>3</sup>  | 7,572,300     | 17.61%                        | 75,723,000            | 5,300,610     | 12.33%                        | 53,006,100            |
| Fidelity Invest Owned by The National Investor PJS - One Man Company LLC <sup>4</sup> | 1,892,000     | 4.40%                         | 18,920,000            | 1,324,400     | 3.08%                         | 13,244,000            |
| Total   | 43,000,000    | 100.00%                       | 430,000,000           | 30,100,000    | 70.00%                        | 301,000,000           |

Source: The Company

1- The shareholding percentages are rounded.

2- Gulf Growth Gold Holding Company W.L.L. is an SPV used in the legal structure of Investcorp Gulf Opportunity Fund I and Investcorp Islamic Gulf Opportunity Fund I. Through the legal structure of Investcorp Gulf Opportunity Fund I, its unitholders are deemed, according to applicable Saudi law, to be the beneficial owners of Shares in the Company. Qatar Investment Authority owns 11.3% of the units of Investcorp Gulf Opportunity Fund I, which beneficially owns 55.49% of the Shares of the Company. Therefore, pursuant to applicable Saudi law, Qatar Investment Authority is deemed to beneficially own 6.25% of the Shares in the Company and will be deemed to beneficially own 4.38% after the Offering. There are no other unitholders in Investcorp Gulf Opportunity Fund I beneficially owning 5% or more of the Shares in the Company. Moreover, through the legal structure of Investcorp Islamic Gulf Opportunity Fund I, the unitholders in such fund have no beneficial ownership of Shares in the Company and therefore there is no unitholder in Investcorp Islamic Gulf Opportunity Fund I beneficially owning 5% or more of the Shares in the Company. Please see Section 1 in Appendix A for further details.

3- Eastgate MENA SPV5 Holding S.P.C. is an SPV used in the legal structure of Oryx MENA Direct Equity Fund. Through the legal structure of Oryx MENA Direct Equity Fund, the unitholders in such fund have no beneficial ownership of Shares in the Company and therefore there is no unitholder in Oryx MENA Direct Equity Fund beneficially owning 5% or more of the Shares in the Company. Please see Section 2 in Appendix A for further details.

4- Fidelity Invest Owned by The National Investor PJS - One Man Company LLC is an SPV used in the legal structure of TNI Growth Capital Fund. Through the legal structure of TNI Growth Capital Fund, the unitholders in such fund have no beneficial ownership of Shares in the Company and therefore there is no unitholder in TNI Growth Capital Fund beneficially owning 5% or more of the Shares in the Company. Please see Section 3 in Appendix A for further details.

## 4.4.2 Overview of the Selling Shareholders

### 4.4.2.1 Abdullah Abdulaziz Saleh Al Othaim

Mr Abdullah Abdulaziz Saleh Al Othaim was born on 8/10/1408H (corresponding to 23/5/1988G). He received his Bachelor's degree in finance from Suffolk University in Boston, United States of America in 2010G. He has been a Director of the Company since 2013G and a director of Abdulaziz Al Othaim & Sons Holding Company, a limited liability company serving as a holding company for the Abdulaziz Al Othaim family, since 2012G.

Mr Abdullah Abdulaziz Saleh Al Othaim has also worked as a business analyst at RBC (Direct Investing), a joint stock company in the financial services industry, in 2011G and as a financial analyst at Abdullah Al Othaim Markets Company, a joint stock company in the retail sector, from 2010G to 2011G.

Mr Abdullah Abdulaziz Saleh Al Othaim is a nominee shareholder holding a 0.019% interest in the Company on behalf of L'azurde Holding (as defined below) such that L'azurde Holding owns 100% of the beneficial economic interest in the Company.

### 4.4.2.2 Abdulaziz Saleh Al Othaim

Mr Abdulaziz Saleh Al Othaim was born on 1/7/1378H (corresponding to 11/1/1959G). He received his diploma in Business Administration from Strayer University in Virginia, United States of America, in 2001G.

Mr Abdulaziz Saleh Al Othaim is the founder of L'azurde Company of Gold & Jewellery. He is a well-known and prominent Saudi in the field of business and investments in the Middle East. He is the Chairman of Abdulaziz Al Othaim & Sons Holding Co.

Mr Abdulaziz Saleh Al Othaim was the Chief Executive Officer and Chairman of L'azurde Company for Gold & Jewellery since its establishment in 1980G until 2010G. He has also been the Chief Executive Officer of Abdullah Al Othaim Markets Co. from 2010G until 2012G, a board member and Vice Chairman of Abdullah Al Othaim Markets Company since its establishment until 2012G, and a board member of Manazel Construction Company since its establishment until 2013G, Aswar United Real Estate from its

establishment until 2014G and the Riyadh Chamber Of Commerce from 1997G until 2001G. He continues to be a board member of Al Rajhi Takaful Insurance Company and the Saudi Economic Association.

Mr Abdulaziz Saleh Al Othaim has also served as a director on the boards of the charitable organisations Al Othaim Charity, Disabled Children Association, and Harakyah Philanthropy for Handicapped Adults.

Mr Abdulaziz Saleh Al Othaim is a nominee shareholder holding a 0.017% interest in the Company on behalf of L'azurde Holding such that L'azurde Holding owns 100% of the beneficial economic interest in the Company.

#### 4.4.2.3 Saleh Abdulaziz Al Othaim

Mr Saleh Abdulaziz Al Othaim was born in 16/9/1402H (corresponding to 8/7/1982G). He received his Bachelor's degree in Business Administration from Business Administration University in Jeddah, Saudi Arabia in 2004G. He has been a chief accountant of Alinma Bank since 2014G. He has also worked as a business development manager of Amlak International Real Estate since April 2011G.

Mr Saleh Abdulaziz Al Othaim is a nominee shareholder holding a 0.017% interest in the Company on behalf of L'azurde Holding such that L'azurde Holding owns 100% of the beneficial economic interest in the Company.

#### 4.4.2.4 Khalid Abdulaziz Al Othaim

Mr Khalid Abdulaziz Al Othaim was born in 8/10/1408H (corresponding to 23/5/1988G). He received a Bachelor's degree in Commerce (majoring in Finance) from Concordia University in Montreal, Canada in 2015G, following upon undergraduate studies in Commerce at Webster University in Geneva, Switzerland in 2008G and at Johnson & Wales University in Rhode Island, United States of America in 2007G.

Mr Khalid Abdulaziz Al Othaim has, among others, worked as an assistant treasurer at Al Othaim Markets Company in 2010G and as an assistant group treasurer at L'azurde Group for Industrial Investment in Riyadh, Kingdom of Saudi Arabia in 2009G.

Mr Khalid Abdulaziz Al Othaim is a nominee shareholder holding a 0.017% interest in the Company on behalf of L'azurde Holding such that L'azurde Holding owns 100% of the beneficial economic interest in the Company.

#### 4.4.2.5 L'azurde Holding Company

L'azurde Holding Company ("L'azurde Holding") is a Saudi limited liability company registered under commercial registration No. 1010211110 dated 7/6/1426H (corresponding to 13/7/2005G). L'azurde Holding's head office and registered office is located in Malaz District, P.O. Box 9192, Riyadh 11413, Kingdom of Saudi Arabia. The current share capital of L'azurde Holding is SAR 500,000, divided into 100 shares with a fully paid nominal value of SAR 5,000 per share.

The following table sets out the ownership structure of L'azurde Holding as at the date of this Prospectus:

**Table 4.23: Ownership Structure of L'azurde Holding as at the date of this Prospectus**

| Shareholder                                    | No. of Shares | Nominal Value (SAR) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|---------------------|-----------------------|----------------------|
| Gulf Fifth Gemstone Saudi LLC                  | 95            | 5,000               | 475,000               | 95%                  |
| Khalifa Hassan Khalifa Al Jalahma <sup>1</sup> | 5             | 5,000               | 25,000                | 5%                   |
| Total  | 100           | 10,000              | 500,000               | 100.0%               |

Source: The Company

1- Mr Al Jalahma is a Bahraini national and nominee shareholder holding a 5% interest in L'azurde Holding on behalf of Gulf Fifth Gemstone Saudi LLC such that Gulf Fifth Gemstone Saudi LLC owns 100% of the beneficial economic interest in L'azurde Holding.

The principal activities of L'azurde Holding include investment in industrial, commercial and agricultural projects and participation in establishing other companies by way of holding controlling interests in them. As at the date of this Prospectus, L'azurde Holding operates primarily as a holding company holding 42,970,332 Shares in the Company (representing 99.93% of its capital). The other 0.07% of Shares in the Company is held by four nominees on behalf of L'azurde Holding such that L'azurde Holding owns 100% of the beneficial economic interest in the Company. There are no operating revenues or operating activities attributed to L'azurde Holding.

Descriptions of L'azurde Holding's shareholders are set out below:

**i) Khalifa Hassan Khalifa Al Jalahma**

Mr Al Jalahma is a Bahraini national and nominee shareholder holding a 5% interest in L'azurde Holding on behalf of Gulf Fifth Gemstone Saudi LLC such that Gulf Fifth Saudi Company LLC owns 100% of the beneficial economic interest in L'azurde Holding.

**ii) Gulf Fifth Gemstone Saudi LLC**

Gulf Fifth Gemstone Saudi LLC is registered under commercial registration No. 1010259625 dated 19/12/1429H (corresponding to 17/12/2008G). Gulf Fifth Gemstone Saudi LLC's head office and registered office is located in Industrial City 2, P.O. Box 41270, Riyadh, Kingdom of Saudi Arabia. The current share capital of the company is SAR 702,688,163 divided into 702,688,163 shares with a fully paid nominal value of SAR 1 per share. The principal activities of the company include wholesale and retail trading of gold and jewellery machines.

As at the date of this Prospectus, Gulf Fifth Gemstone Saudi LLC serves primarily as a holding company established by both the Consortium and Mr Abdulaziz Saleh Al Othaim and it holds 95 Shares in L'azurde Holding (representing 95% of its capital). The other 5% of shares in L'azurde Holding are held by Mr Khalifa Hassan Khalifa Al Jalahma as a nominee shareholder holding shares on behalf of Gulf Fifth Gemstone Saudi LLC such that Gulf Fifth Gemstone Saudi LLC owns 100% of the beneficial economic interest in the Company.

The following table sets out the ownership structure of Gulf Fifth Gemstone Saudi LLC as at the date of this Prospectus:

**Table 4.24: Ownership Structure of Gulf Fifth Gemstone Saudi LLC as at the date of this Prospectus**

| Shareholder                               | No. of Shares | Value of Shares (SAR) | Ownership Percentage |
|---|---------------|-----------------------|----------------------|
| Gulf Fourth Gemstone Holding Company LLC. | 544,583,326   | 544,583,326           | 77.5%                |
| Abdulaziz Saleh Al Othaim                 | 158,104,837   | 158,104,837           | 22.5%                |
| Total                                     | 702,688,163   | 702,688,163           | 100.0%               |

Source: The Company

The shareholders of Gulf Fifth Gemstone Saudi LLC have entered into a shareholders' agreement containing provisions in relation to the management and administration of its affairs and defining the mutual obligations and rights of its shareholders that will be terminated upon the completion of the Offering, and will not have any impact on the Company. As at the date of this Prospectus, there is no other shareholders' agreement in place between the shareholders of Gulf Fifth Gemstone Saudi LLC.

Descriptions of Gulf Fifth Gemstone Saudi LLC's shareholders are set out below:

**i) Abdulaziz Saleh Al Othaim**

Abdulaziz Saleh Al Othaim owns on his own behalf 22.50% in Gulf Fifth Gemstone Saudi LLC. For details regarding Mr Abdulaziz Saleh Al Othaim, please see Section 4.4.2.2 ("Abdulaziz Saleh Al Othaim").

**ii) Gulf Fourth Gemstone Holding Company LLC**

Gulf Fourth Gemstone Holding Company LLC is registered under commercial registration No. 1010259604 dated 19/12/1429H (corresponding to 17/12/2008G). Gulf Fourth Gemstone Holding Company LLC's head office and registered office is located in Industrial City 2, P.O. Box 41270, Riyadh, Kingdom of Saudi Arabia. The current share capital of the company is SAR 100,000 divided into 100,000 shares with a fully paid up nominal value of SAR 1 per share.

As at the date of this Prospectus, Gulf Fourth Gemstone Holding Company LLC serves primarily as a holding company established by the Consortium, holding 544,583,326 shares in Gulf Fifth Gemstone Saudi LLC (representing 77.5% of its capital). The other 22.5% of shares in Gulf Fifth Gemstone Saudi LLC is held by Mr Abdulaziz Saleh Al Othaim.



The following table sets out the ownership structure of Gulf Fourth Gemstone Holding Company LLC as at the date of this Prospectus:

**Table 4.25: Ownership Structure of Gulf Fourth Gemstone Holding Company LLC as at the date of this Prospectus**

| Shareholder                                 | No. of Shares | Value of Shares (SAR) | Ownership Percentage |
|---|---------------|-----------------------|----------------------|
| Gulf First Gemstone Holding Company W.L.L.  | 50,000        | 50,000                | 50%                  |
| Gulf Second Gemstone Holding Company W.L.L. | 50,000        | 50,000                | 50%                  |
| Total                                       | 100,000       | 100,000               | 100%                 |

Source: The Company

Descriptions of Gulf Fourth Gemstone Holding Company LLC's shareholders are set out below:

**i) Gulf First Gemstone Holding Company W.L.L.**

Gulf First Gemstone Holding Company W.L.L. is registered under commercial registration No. 70108-1 dated 15/10/1429H (corresponding to 16/10/2008G). Gulf First Gemstone Holding Company W.L.L.'s head office and registered office is located in Flat 51, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 250,000 divided into 5,000 shares with a fully paid up nominal value of BHD 50 per share.

As at the date of this Prospectus, Gulf First Gemstone Holding Company W.L.L. serves primarily as a holding company established by the Consortium, holding 50,000 shares in Gulf Fourth Gemstone Holding Company LLC (representing 50% of its capital).

**ii) Gulf Second Gemstone Holding Company W.L.L.**

Gulf Second Gemstone Holding Company W.L.L. is registered under commercial registration No. 70111-1 dated 15/10/1429H (corresponding to 16/10/2008G). Gulf Second Gemstone Holding Company W.L.L.'s head office and registered office is located in Flat 52, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 250,000 divided into 5,000 shares with a fully paid up nominal value of BHD 50 per share.

As at the date of this Prospectus, Gulf Second Gemstone Holding Company W.L.L. serves primarily as a holding company established by the Consortium, holding 50,000 shares in Gulf Fourth Gemstone Holding Company LLC (representing 50% of its capital).

The following table sets out the ownership structure of Gulf First Gemstone Holding Company W.L.L. as at the date of this Prospectus:

**Table 4.26: Ownership of Gulf First Gemstone Holding Company W.L.L. as at the date of this Prospectus**

| Shareholder                                 | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|---|---------------|-----------------------|-----------------------|----------------------|
| Gulf Investors Gold Holding Company W.L.L.  | 4,995         | 249,750               | 2,487,485             | 99.9%                |
| Gulf Second Gemstone Holding Company W.L.L. | 5             | 250                   | 2,490                 | 0.1%                 |
| Total                                       | 5,000         | 250,000               | 2,489,975             | 100.0%               |

Source: The Company

The following table sets out the ownership structure of Gulf Second Gemstone Holding Company W.L.L. as at the date of this Prospectus:

**Table 4.27: Ownership of Gulf Second Gemstone Holding Company W.L.L. as at the date of this Prospectus**

| Shareholder                                | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|-----------------------|-----------------------|----------------------|
| Gulf Investors Gold Holding Company W.L.L. | 4,995         | 249,750               | 2,487,485             | 99.9%                |
| Gulf First Gemstone Holding Company W.L.L. | 5             | 250                   | 2,490                 | 0.1%                 |
| Total                                      | 5,000         | 250,000               | 2,489,975             | 100.0%               |

Source: The Company

Each of Gulf First Gemstone Holding Company W.L.L. and Gulf Second Gemstone Holding Company W.L.L. are 99.9% owned by Gulf Investors Gold Holding Company W.L.L. (described below). Gulf First Gemstone Holding Company W.L.L. owns 0.1% of Gulf Second Gemstone Holding Company W.L.L. and Gulf Second Gemstone Holding Company W.L.L. owns 0.1% of Gulf First Gemstone Holding Company W.L.L., each one of which is described above.

#### **Gulf Investors Gold Holding Company W.L.L.**

Gulf Investors Gold Holding Company W.L.L. is registered under commercial registration No.70520-1 dated 3/12/1429H (corresponding to 1/12/2008G). Gulf Investors Gold Holding Company W.L.L.'s head office and registered office is located in Flat 32, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 250,000 divided into 5,000 shares with a fully paid up nominal value of BHD 50 per share.

As at the date of this Prospectus, Gulf Investors Gold Holding Company W.L.L. serves primarily as a holding company established by the Consortium, holding 4,995 shares in Gulf First Gemstone Holding Company W.L.L. and 4,995 shares in Gulf Second Gemstone Holding Company W.L.L. (representing 99.9% of each of their respective capital). Gulf Investors Gold Holding Company W.L.L. is a beneficial owner as at the date of this Prospectus of 77.5% of the Shares in the Company on behalf of the Consortium. After the Offering, it will beneficially own on behalf of the Consortium 54.25% of the Shares in the Company.

The following table sets out the ownership structure of Gulf Investors Gold Holding Company W.L.L. as at the date of this Prospectus:

**Table 4.28: Ownership of Gulf Investors Gold Holding Company W.L.L. as at the date of this Prospectus**

| Shareholder  | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|-----------------------|-----------------------|----------------------|
| Gulf Growth Gold Holding Company W.L.L.                                  | 3,580         | 179,000               | 1,782,822             | 71.60%               |
| Eastgate MENA SPV5 Holding S.P.C.  | 1,136         | 56,800                | 565,722               | 22.72%               |
| Fidelity Invest Owned by The National Investor PJS - One Man Company LLC | 284           | 14,200                | 141,431               | 5.68%                |
| Total  | 5,000         | 250,000               | 2,489,975             | 100.0%               |

Source: The Company

Descriptions of Gulf Investors Gold Holding Company W.L.L.'s shareholders are set in Section 1 in Appendix A for Gulf Growth Gold Holding Company W.L.L., Section 2 in Appendix A for Eastgate MENA SPV5 Holding S.P.C. and Section 3 in Appendix A for Fidelity Invest Owned by The National Investor PJS - One Man Company LLC.

## **4.5 Vision, Mission and Strategy**

### **4.5.1 Vision**

L'azurde Group aims for L'azurde to become the most endearing, trusted and inspiring fashionable jewellery brand in the Middle East and beyond.

### **4.5.2 Mission**

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

### **4.5.3 Strategy**

L'azurde Group strives to become the leading manufacturer and distributor of gold and diamond jewellery products in the Kingdom, Egypt, the MENA region and other international markets in which L'azurde Group operates. In furtherance of this vision, L'azurde Group has adopted the following business strategy:

#### **4.5.3.1 Gold Jewellery Wholesale Business**

- L'azurde Group plans to further expand the gold jewellery business through the following measures:
- Continue the strategy of innovation and improvements in product lines;
- Increase market share of gold products, specially the 18k segment, which is strategic to L'azurde Group;
- Strengthen the trade marketing programmes for strategic key accounts;
- Build partnerships with international companies to introduce new products, such as wedding sets; and
- Strengthen L'azurde Group's presence across all GCC markets and develops new custom-made products lines for the Western markets.

#### **4.5.3.2 Expand the Retail Business**

L'azurde Group aims to:

- Improve the performance of existing shops by introducing new and better products, in particular for popular collections; and
- Open new retail shops at top locations in existing and upcoming malls, particularly in the Kingdom.

#### **4.5.3.3 Expand the Diamonds Jewellery Wholesale Business**

L'azurde Group will further develop its new two-year-old wholesale diamonds business in the Kingdom, Egypt and the GCC. L'azurde Group plans to launch new collections, allocate more people and resources, and expand its customer base.

#### **4.5.3.4 Develop Technology, Enhance Manufacturing and Improve Working Capital Efficiency**

- L'azurde Group aims to: utilise the latest techniques to come up with more creative designs and differentiate its products in the market;
- Pursue product quality improvements while controlling manufacturing costs to maintain cost efficiency and optimise manufacturing processes;
- Enhance gold and cash working capital efficiency by turning products over faster in the retail shops and optimising the receivables process; and
- Continue to enhance and optimise L'azurde Group's IT/ERP system capabilities and business insights information to make the business more strategic, targeted and efficient.

#### **4.5.3.5 Strengthen the Brand Image and Expand the Consumer Base**

L'azurde Group aims to:

- Focus on raising consumer reach, leveraging the high brand awareness and raising consumer engagement with the L'azurde brand; and
- Strengthen the brand image and grow the customer base using a holistic marketing strategy targeted across all key marketing media, such as television, online, PR, print and outdoor, with the aim of enhancing L'azurde Group's image and growing the customer base.

#### **4.5.3.6 Enhance Organisation Capabilities and Improve Corporate Governance**

L'azurde Group aims to:

- Use human resources development to effectively support its growth. L'azurde Group plans to leverage its HR roadmap to enhance professional development of its employees, pursue the performance oriented culture and instil its corporate values across L'azurde Group; and
- Enhance corporate governance through better policies, control procedures and risk management.

## 4.6 Competitive Advantages

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

### 4.6.1 Resilient Business Model and Financial Performance

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

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

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

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

This resilient business model has enabled L'azurde Group to continuously increase its revenues and profitability over the years. The EBITDA have increased by a CAGR of 10.9%, from 2013G to 2015G. This was achieved as a result of an increase in sales volume and high margin product mix. L'azurde Group's operational efficiencies also give it an edge over competition.

### 4.6.2 Brand Recognition

L'azurde Group has established itself as a leading brand in the MENA region. L'azurde Group began its focused advertising initiative in 2007G and undertook the largest scale advertising campaign in the region (with a budget of approximately USD 20 million, equivalent to SAR 75,027,000). As at the date of this Prospectus, the "L'azurde" brand awareness of 99% (as per the research conducted in the Kingdom and Egypt in 2015G by the research company TNS) ranks the highest by a significant margin in the both the "top of mind" metric, and in absolute terms amongst consumers. This was achieved through major TV and print advertising campaigns by L'azurde Group, as well as using recognizable brand ambassadors from celebrities, such as the Lebanese singer Elissa. L'azurde Group has also communicated and marketed a large variety of collections, for example "Dream", a limited edition collection, developed with the well-known designer Lady Fozaza. L'azurde Group also markets its brand online and on social media. These campaigns and collaborations with celebrities create a competitive advantage for L'azurde Group against its market competitors.

### 4.6.3 Advanced Design and Manufacturing Facilities

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

L'azurde Group has streamlined labour intensive pieces to drive the efficiency of its production process. These advantages enable L'azurde Group to charge a premium labour service charge, meet a wide variety of consumer tastes and create distinguished pieces of jewellery.

#### **4.6.4 Leadership Position**

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

#### **4.6.5 Highly Experienced Senior Management Team**

L'azurde Group's senior management team is comprised of experienced executives with a long track record of financial and operational success, and a thorough knowledge and understanding of every facet of manufacturing gold and diamond jewellery. With wide experience in manufacturing gold and diamond jewellery, consumer marketing, manufacturing and financing the senior management is able to work efficiently and seamlessly as a team to identify, evaluate and execute L'azurde Group's expansion plans and growth initiatives. The senior management team has introduced detailed financial reporting systems that assist in monitoring the business and making strategic decisions on a regular basis. Moreover, the senior management fosters an entrepreneurial culture focused on innovation, great team work, customer service, and state of the art execution, and has been able to attract and retain superior talent.

### **4.7 Overview of L'azurde Group's Business**

#### **4.7.1 Business Model**

The core business model of L'azurde Group consists of designing and manufacturing of gold and diamond jewellery; marketing and selling of such to wholesale clients and through its own network of retail showrooms; and distributing jewellery manufacturing equipment. Although L'azurde Group works in manufacturing gold and diamond jewellery and precious and semi-precious stones, in addition to distribution of jewellery manufacturing equipment, activities related to gold jewellery is its core business that utilises most of its resources and generates most of its revenues. Diamond jewellery, precious and semi-precious stones, and the distribution of jewellery manufacturing equipment, however, are smaller in proportion compared to their activity related to gold jewellery, since they are new and still under development.

L'azurde Group conducts the above-mentioned operations related to manufacturing gold jewellery through a business model for gold operations which is developed, adopted and implemented so it could be a central and core element of its competitive edge. Such model comprises of an operational cycle that consists of three main stages with an added value for each. The first stage includes the untraditional supply of gold, the second stage includes manufacturing gold jewellery, and the third stage includes the distribution of final products. The following is a detailed explanation of the gold operations' business model:

##### **A) Supply of Raw Gold**

In the first stage of the operational cycle, L'azurde Group obtains the necessary amount of gold to be used as raw material at the beginning of each month according to the monthly production plan. L'azurde Group obtains such gold through gold loans secured from local and international banks with different terms ranging from one to six months. Such loans are granted at the physical amount of gold, not its monetary market value, i.e. loan principals are registered and issued at the gold's weight not its monetary value. Repayment of gold loans shall be by the same physical amount of gold in addition to its accrued costs or profit margins in cash, which is calculated according to the gold value at the beginning of the loan term. Furthermore, when granted such loans, L'azurde Group is required to deposit margin deposits as collateral for the bank, and such deposits shall, upon maturity of these loans, be recoverable for the benefit of L'azurde Group. The average collection period from clients is 32 days by way of the actual gold weight sold, in addition to the labour service charge in SAR, or the relevant currency. This ensures that L'azurde Group's gold assets, represented in accounts receivables kept as inventories, always equal its liabilities of gold loans at all times. In case of delayed collection from clients, the Company shall obtain new loans to cover the deficit in collection so that the increase in current assets, represented by account receivables, equals the increase in current liabilities, represented in gold loans, thus mitigating the risk of gold price fluctuations.

## B) Designing and Manufacturing Gold Jewellery

The second stage starts with collecting gold from lending banks and introducing it to the manufacturing process, through which added value is generated. The design and manufacturing stage is focussed on processing and preparing gold using many manufacturing methods and stages including, but not limited to, filtering and purifying gold using modern methods, moulding wax and casting to forge gold jewellery pieces, and assembling and refining gold pieces to form final products of 18 and 21 carats, which are based on the various and approved designs, decorated and encased in stones. In addition, final products undergo accurate quality inspection to ensure they are free from any defects or impurities. Also, the stage of processing and manufacturing gold jewellery used in L'azurde Group is considered among the best standards in the gold jewellery industry and uses the recent technologies characterised with accuracy, speed, quality, and efficiency (for more details about such stage, refer to section 4.7.3.2 ("Manufacturing Process")).

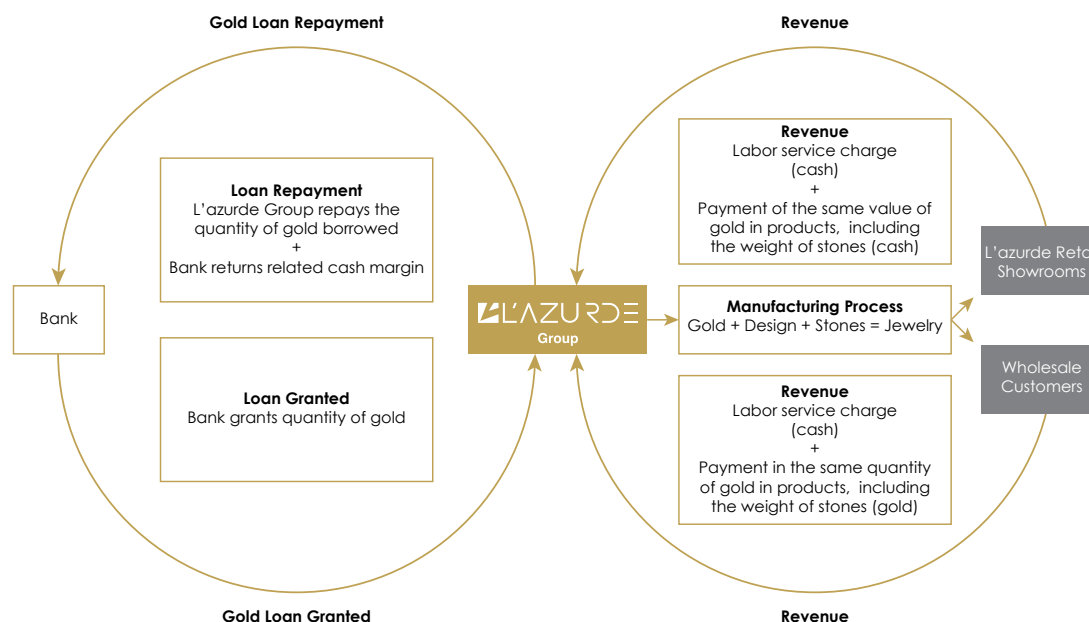
## C) Distributing Final Products

The stage of distribution is the third and final stage of the operational cycle of gold processes business model, and includes the distribution of final products to a wide network of wholesalers of more than 2,200 independent retailers in different countries in the MENA region. It also includes selling and distributing thereof. Sale of gold jewellery to wholesalers is conducted in consideration of an in kind amount of gold similar in weight and purity to sold products and in consideration of cash payments representing the added value of designing and manufacturing charge to be paid in Saudi Riyals or the relevant currency.

The business model of gold jewellery has two features distinguishing it from most of the business models adopted by companies and institutions operating in the jewellery manufacturing industry and competing with L'azurde Group.

First, acquiring the gold used in the operational cycle by borrowing from banks, rather than buying from the market, provides a competitive advantage protecting L'azurde Group from the gold price fluctuations. If gold prices rise, gold assets at L'azurde Group along with the liabilities of L'azurde Group from gold loans will increase, accordingly, at the same time and value. Therefore, the amount of retained gold matches with the amount of gold loans at all times. Conversely, if gold prices decrease, gold assets value at L'azurde Group along with the liabilities of L'azurde Group from gold loans will decrease accordingly. Second, by collecting the amount of gold jewellery sold identical in weight and purity of sold products, accordingly, the L'azurde Group model of gold processes enables it to ensure ability to pay gold loans and protects it against fluctuations in gold prices.

### Exhibit 4: Gold Business Model of L'azurde Group



Source: The Company



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

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

L'azurde Group maintains a balanced and diversified wholesale customers' base and generates also revenue through sales from L'azurde Group's own retail shops to end consumers. The table below shows L'azurde Group's revenue for the top 10 wholesale customers, following 11 to 70 wholesale customers, following 71 to 300 wholesale customers and following 301 to 1,800 wholesale customers, as well as sales to retail end-consumers and other customers in the years ended 31 December 2013G, 2014G, and 2015G.

**Table 4.29: L'azurde Group's Revenue per Customer Tranches in the Years Ended 31 December 2013G, 2014G and 2015G**

| Customers         | 2013G<br>Million SAR | % of total<br>revenue | 2014G<br>Million SAR | % of total<br>revenue | 2015G<br>Million SAR | % of total<br>revenue |
|-------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
| Top 10            | 788                  | 27%                   | 667                  | 24%                   | 479                  | 18%                   |
| 11 to 70          | 692                  | 23%                   | 691                  | 25%                   | 739                  | 26%                   |
| 71 to 300         | 770                  | 26%                   | 724                  | 26%                   | 817                  | 29%                   |
| 301 to 1,800      | 572                  | 20%                   | 573                  | 21%                   | 685                  | 24%                   |
| Retail and Others | 105                  | 4%                    | 105                  | 4%                    | 93                   | 3%                    |
| Total             | 2,927                | 100%                  | 2,760                | 100%                  | 2,813                | 100%                  |

Source: The Company

#### 4.7.1.1 Gold Jewellery Wholesale

L'azurde Group designs and manufactures gold jewellery in Egypt and the Kingdom, and sells gold jewellery across more than 52 countries mainly in the MENA region and through more than 2,200 third-party independent retailers. Sales are primarily made by a well-established and professional wholesale sales team which continually reinforces collaboration and partnership with customers and key accounts. The sales team is continuously seeking opportunities to expand jewellery distribution to new customers while preserving and developing the brand image. L'azurde Group maintains a strong marketing presence in the windows of third-party retailers through the supply of branded L'azurde displays and effective trade marketing strategies. The marketing team supports the retailers with events in the market to help drive the sales of L'azurde Group's jewellery. Customer knowledge and close collaboration is a major competitive advantage for L'azurde Group. L'azurde Group has its own wholesale team in the Kingdom, Egypt, the UAE and Qatar. In other markets L'azurde Group sells through exclusive and non-exclusive distributors or sells directly to various retailers.

#### 4.7.1.2 Diamonds Jewellery Wholesale

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

#### 4.7.1.3 Gold and Diamonds Jewellery Retail

To diversify its revenues and leverage the well-established brand name, L'azurde Group decided to expand into the retail jewellery business focussing initially on the Kingdom and Egypt. As at 31 December 2015G, L'azurde Group operates its own portfolio of 14 L'azurde-branded jewellery stores: 11 in Saudi Arabia, two



stores in Egypt, and one store in the UAE. L'azurde Group's strategy is focussed on launching new L'azurde-branded retail shops at top locations in key shopping malls focussing mainly on assortments of diamond jewellery. L'azurde Group's policy is to rent locations and not own retail shops. The vision is to reach a network of 50 shops in the coming years, with a focus on securing top locations to maximise revenues and profitability. L'azurde Group has established a dedicated and experienced retail management team with strong organisational support to grow the retail business. The retail business does not conflict with the gold jewellery wholesale business as the retail focus of L'azurde Group is on diamond jewellery sold by piece while the gold jewellery wholesale business sells gold jewellery by weight. In addition, the L'azurde-branded retail stores owned by L'azurde Group are mostly located in the shopping malls whereas the majority of the gold wholesale customers are in gold souks. The following table illustrates the location of L'azurde Group's own L'azurde-branded jewellery stores:

**Table 4.30: Location of L'azurde Group's own L'azurde branded Jewellery Stores as at 31 December 2015G**

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

Source: The Company

#### 4.7.1.4 Distribution of Jewellery Manufacturing Machinery

In addition to the wholesale and retail jewellery and diamond businesses, L'azurde Group represents various equipment manufacturers of jewellery machinery and sells in the Kingdom their machinery to various manufacturers of gold and diamond jewellery. This small but strategic business helps L'azurde Group strengthen its collaboration with global jewellery equipment manufacturers and stay up-to-date with the latest market developments.

## 4.7.2 Products

L'azurde Group designs, manufactures and sells gold and diamond jewellery and sells various jewellery manufacturing equipment. The following table illustrates L'azurde Group revenues by products category in the years ended on 31 December 2013G, 2014G and 2015G:

**Table 4.31: L'azurde Group Operating Revenues by Products<sup>1</sup>**

| Customers               | 2013G<br>Million SAR | % of total<br>revenue | 2014G<br>Million SAR | % of total<br>revenue | 2015G<br>Million SAR | % of total<br>revenue |
|-------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
| Gold sales jewellery    | 381                  | 85%                   | 400                  | 86%                   | 449                  | 85%                   |
| Diamond sales jewellery | 61                   | 14%                   | 62                   | 13%                   | 75                   | 14%                   |
| Machinery and Others    | 5                    | 1%                    | 6                    | 1%                    | 6                    | 1%                    |
| Total                   | 4482                 | 100%                  | 468                  | 100%                  | 530                  | 100%                  |

Source: The Company

1- Note that the revenues are only related to the revenues of the operations and do not include the gold value of gold jewellery wholesale.

2 Internal revenue has been excluded between distribution channels within L'azurde Group in 2013G, removal of SAR 20.5 million internal revenue related to the workshop of diamond products and L'azurde retail showrooms, and SAR 3.3 million internal revenue related to gold wholesale to L'azurde Group's retail showrooms.

#### **4.7.2.1 Gold Jewellery Products**

L'azurde Group designs, manufactures and sells gold jewellery sets, and a variety of Nawaim jewellery in 18k and 21k gold purity. A set is a jewellery product consisting of an assortment of necklaces, earrings, rings and bracelets sold mainly for festive occasions. Nawaim represents individual jewellery pieces like rings, earrings, pendants, bracelets and chains. L'azurde Group has a very good knowledge of product and consumer trends in the region. The 18k line is differentiated from the 21k product category as it is considered more fashionable, trendy and innovative. The 18k line often follows global international trends while 21k is viewed as more traditional. L'azurde Group is investing resources and leveraging its brand name and market position to grow its share in the 18k category.

L'azurde Group also sells bangles and chains. A bangle is a popular traditional jewellery product in the Kingdom and the Middle East region and consists of a bracelet without a lock. Consumers tend to wear bangles for a long period and often view them as investments, often buying, for example, three pieces or more in a single transaction. L'azurde Group innovates with fashionable 21k bangles sold at premium prices to drive higher profitability. L'azurde Group leverages its large base of machinery and available capacity to sell jewellery chains which help optimise its manufacturing costs. L'azurde Group has more than 100 different designs and styles of chains. The types of chains vary based on the shape, cut, weight and length.

#### **4.7.2.2 Diamonds Jewellery Products**

L'azurde Group designs, manufactures and sells diamond jewellery sets and Nawaim diamond jewellery across its retail shops and to some key third-party retailers. A diamond jewellery set is a jewellery product consisting of an assortment of necklaces, earrings, rings and bracelets sold mainly for weddings. Nawaim represents individual jewellery pieces such as rings, earrings, pendants and bracelets. L'azurde Group sells diamond jewellery for various occasions such as weddings, gifting and daily wear, available as collections such as "Al Arous", "Dream", "Solitaire" and others. An analysis of different consumer segments in the market revealed an opportunity for L'azurde Group to introduce a lower tier diamond jewellery product that attracts a different consumer from the core target audience of the premium L'azurde brand, which led to the development of a sub-brand called "Kenaz" offering good value to customers at a different product and price point and in a different segment without compromising the core L'azurde brand positioning. L'azurde Group designs and sells "Kenaz" branded rings, earrings, pendants and bracelets, and outsources manufacturing to key suppliers.

#### **4.7.2.3 Machines for Jewellery Manufacturing**

Pursuant to distribution agreements with manufacturers of jewellery machinery, L'azurde Group sells various jewellery machinery used in the manufacturing of jewellery to gold and diamond jewellery manufacturers in the Kingdom. These machineries include jewellery casting, laser soldering and ultrasonic machines.

### **4.7.3 Manufacturing**

#### **4.7.3.1 Manufacturing Facilities and Capacity**

L'azurde Group operates more than 32,000 sqm of manufacturing space for gold and diamond jewellery across the Kingdom and Egypt. The factory in the Kingdom, located in Riyadh, employing 995 craftsmen, as at 31 December 2015G, and established on 18/7/1412H (corresponding to 23/1/ 1992G), manufactures products sold in both the Kingdom and international markets, whereas the two factories in Egypt, one located in Cairo, employing 124 craftsmen, as at 31 December 2015G, and established on 5/11/1423H (corresponding to 8/1/ 2003G), and the second located in Qalyubia, employing 1,069 craftsmen, as at 31 December 2015G, and acquired on 11/9/1433H (corresponding to 30/7/ 2012G), manufacture products mainly for sale in the local Egyptian market. L'azurde Group employs over 2,000 experienced gold and diamond jewellery craftsmen and has more than 30 years' legacy in gold and diamond jewellery manufacturing. This enhances customer loyalty and allows L'azurde Group to offer high quality jewellery manufactured using a wide variety of technologies and techniques.

The following table illustrates actual and maximum production capacity of L'azurde Group's factories and products lines in the years ended on 31 December 2013G, 2014G and 2015G:

**Table 4.32: The Factories' Capacities and Products Lines**

|   | 2013G  |         | 2014G  |         | 2015G  |         |
|---|--------|---------|--------|---------|--------|---------|
|   | Actual | Maximum | Actual | Maximum | Actual | Maximum |
| Gold jewellery, the Kingdom (tons)      | 8.9    | 19.5    | 8,9    | 21.2    | 10.1   | 22.9    |
| Gold jewellery, Egypt (tons)            | 7.5    | 14.6    | 8.3    | 16.1    | 9.1    | 17.7    |
| Diamond jewellery, the Kingdom (pieces) | 4,435  | 14,000  | 4,745  | 14,000  | 7,743  | 14,000  |
| Diamond jewellery, Egypt (pieces)       | 4,093  | 12,000  | 3,862  | 12,000  | 2,965  | 12,000  |

Source: The Company

Despite the availability of actual production capacity higher than used production capacity as shown in table above, L'azurde Group is aiming to expand its operations in Egypt by building a new factory with production capacity reaching 15 tons of gold jewellery, designed and equipped with the latest technology to lift the quality standards and minimize costs. It's worth mentioning that L'azurde Group's factories operate based on the output demand.

#### 4.7.3.2 Manufacturing Process

L'azurde Group's jewellery manufacturing process uses advanced technologies and dedicated research. Jewellery manufacturing is a complex and slow process that starts from the design phase and concludes with the packaging phase. Below is a brief description of some of the key steps involved in the manufacturing of the jewellery.

##### A) Design

In order to manufacture a unique piece of jewellery, the initial step is to conceive a design. Designs are the result of continuous research by the design team which takes into account input from customers, current fashion trends and the success of the latest collections. The design process is carried out by highly skilled craftsmen and the final design is the result of close cooperation between designers, craftsmen and management. Ultimately, it is the designer's concept and drawings which are used to prepare the model design of the jewellery. L'azurde Group creates more than 5,000 new designs each year. L'azurde Group leverages its advanced technology base to launch differentiated and innovative designs at premium prices. For further details on the technology, please see Section 4.7.3.3 ("Technology").

##### B) Procurement and Refining

The Company primarily borrows gold from various banks in the Kingdom or collects gold from current wholesale customers as one of the payment methods for the procurement process. The gold that is used in the manufacturing process is checked for purity and the Company only relies on high quality gold. This quantity of gold is shifted to the refinery and recovery section, where it is processed and refined using chemicals to improve the level of purity. The refined gold is then used internally to prepare different kinds of jewellery products or melted and returned back to the banks in physical gold bars. The gold loss incurred during the manufacturing process is minimised by a specialist recovery team.

##### C) Moulding

Once the jewellery model is prepared by the model maker, it is transferred to the wax department, where each individual jewellery design has its own rubber mould for creating replicas. The wax specialists inject liquid wax into the rubber mould, and after the temperature of the wax cools, the wax is removed from the rubber mould, a wax tree is used to grasp cold wax pieces and there are separate wax trees for each gold colour (yellow or white) and karat (18K or 21K).

##### D) Casting and other operations

Casting is relatively complex and requires skilful, experienced workers in order to get the desired end product. The wax replicas from the wax tree are placed in metal containers which are then filled with plaster and heated in a chamber at high temperature, which melts the wax leaving behind perfect cavities. Liquefied gold is then poured into the cavities, the gold is allowed to cool, and then the containers are destroyed to reveal the jewellery tree in casting form.

The jewellery tree is sent to the cutting team where all the jewellery pieces are carefully cut off. The tree trunk is then melted to be re-used in future casting. After the jewellery pieces are cut and sorted, they are separated for the various orders.

Gold chains, tubes, stamping pieces, balls, and wires are integral components of the jewellery. There refined gold is melted in a continuous casting machine, through which gold alloys/bars are made. Gold bars are also drawn in various wire type drawing machines. Gold alloys are also winded in sheets winding machines and used in making seals in pressing workshops, as well as, manufacturing balls, welding plates, locks and so on. These items are delivered to the assembly line along with the cast pieces.

#### E) Assembly Line and Polishing

After the jewellery pieces have been sorted, they are transferred to the assembly department. The craftsmen in this department are responsible for connecting jewellery pieces and all other key items together by soldering them using a high precision laser soldering machine without destroying or melting the surrounding areas. Rough areas of the pieces are smoothened by various finishing tools such as steel brushes and files. The craftsmen, who are skilled in stone setting, use precision, hand-held tools to set diamonds, semi-precious stones, pearls and other types of stones.

The soldered pieces are then transferred to the polishing department to give them shine and luster using an ultrasonic machine, which removes any dirt and dust. In addition, the Company uses a dust collector to ensure that all the remaining metal pieces have been counted and re-used, in order to eliminate any unnecessary waste. Jewellery products then go through another phase of superficial decoration and are given the final touches, if necessary. Thereafter the final jewellery pieces are forwarded to the quality control department.

#### F) Quality

After all the above steps are completed, in addition to preliminary quality checks throughout the entire production cycle, a final quality inspection for any defects is carried out on all finished jewellery to ensure each piece of jewellery meets L'azurde Group's quality standards before delivery. If any piece of the final jewellery fails the quality check, the product is independently returned to the concerned department to be reworked, if possible, or sent for melting if deemed irreparable. A model number, weight, karat, and barcode are printed on a tag and attached with each approved piece of jewellery, whereafter the approved piece of jewellery is delivered to the sales department where it is securely packed.

#### 4.7.3.3 Technology

L'azurde Group's philosophy is to continually invest in, and develop, new technological capabilities in order to offer differentiated jewellery products to customers, support premium prices and automate the manufacturing and production process. L'azurde Group regularly invites jewellery experts from around the world to assist in production efficiency initiatives and to further develop its technological capabilities. One of L'azurde Group's manufacturing strategic priorities is to optimise its production costs in order to support gross margin by focusing on automation and reengineering activities such as laser soldering, mechanised finishing, stone in wax, and diamond-cut and surface decoration through the use of fully automated machines. L'azurde Group manufactures gold jewellery with the following technologies:

- **Casting:** a process in which gold is melted and poured into a mould by the lost wax technique.
- **3D printing:** a process for making a physical prototype from a three dimensional digital model design, typically by laying down many successive thin layers of resin.
- **Stamping:** a process of placing a flat gold sheet into a stamping press where a tool and die forms the gold sheet into a desired design by punching.
- **Laser-cut:** a technology that uses laser to cut a gold sheet into a desired design. The laser optics and CNC (Computer Numeric Control) are used to direct the laser beam by a motion control system to follow a digital pattern to be cut onto the gold sheet.
- **Solid chains:** a gold wire is cut and transformed into links in different design patterns, linked together, and soldered by an automated or semi-automated machine.
- **Hollow and super hollow tube/chain:** a process of profiling copper/iron rod in gold sheet and dissolving the copper/iron after it is transformed into tube or chain and soldering it.
- **Cup-chain:** a gold sheet is cut and formed into stone house shapes, after which the stone is placed in the stone house and linked together by laser to form chains by a fully automatic system.
- **CNC:** a computer numeric control technology for applying a variety of diamond-cut designs on a gold surface either on balls or sheet shapes.

#### 4.7.3.4 Raw Materials

The large majority of raw materials consumed by L'azurde Group in its manufacturing process consist of gold. In addition to this, L'azurde Group uses diamonds, precious and semi-precious stones, pearls and cubic zirconia. The following table outlines the value of raw materials used in production by L'azurde Group in the years ended on 31 December 2013G, 2014G, and 2015G.

**Table 4.33: The Value of Raw Materials Used in the Production by L'azurde Group in Production during the Years ended 31 December 2013G, 2014G, and 2015G**

| (SAR million)                   | 2013G | 2014G | 2015G |
|---------------------------------|-------|-------|-------|
| Gold                            | 2,376 | 2,249 | 3,016 |
| Diamonds                        | 15    | 9     | 15    |
| Precious and nonprecious stones | 6     | 5     | 9     |

Source: The Company

#### 4.7.3.5 Security, Safety and Environment

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

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

#### 4.7.3.6 Quality Control

The production cycle is a thorough process starting from preparing the mould, gold wire and sheet, wax injection, lost wax casting, continuous casting, sprue-grinding, mechanised finishing, stone setting and polishing. L'azurde Group offers top quality jewellery by following regular inspection techniques throughout the entire production cycle, with an efficient total quality management system, using very high quality raw materials and inputs, and skilled craftsmen with an average of fifteen years of employment with L'azurde Group. The final finished products are systematically inspected and the quality team benchmarks every finished product to the original sample to ensure that there are no differences. Once approved, the finished products are tagged with the L'azurde brand name. If any defects are noted, the product is independently evaluated and may then be reworked or sent for melting if deemed irreparable. The quality team consists of highly skilled employees who go through an initial screening and a rigorous training and performance management system.

L'azurde Group also maintains several certifications with the aim of continuously raising product and overall manufacturing environment quality standards (for further details, please see Section 4.7.3.8 ("Certification")).

#### 4.7.3.7 Inventory Control and Distribution

L'azurde Group has organised strict procedures to monitor the inventory in all stages of the operational and marketing processes cycle from production to marketing, selling, and collecting dues from clients. Inventory amount to be retained is determined according to accurate rates that depend on the sales and production plan, along with manufacturing methods, loss rate, and safety inventory. Inventory level is measured in several ways, such as inventory turnover (cost of sales / value of inventory), days of inventory retention (value of inventory / cost of sales\*365), and inventory coverage period (value of inventory - cost of sales for the upcoming months according to the plan). At the end of each month, inventory ages are measured according to the aforementioned ways, accounting for and assessing slow-moving items or those without future demand, and establishing a provision for such items according to their ages and expected demand thereon. Such provision undergoes a monthly review to check its sufficiency. Net inventories increased from SAR 849.4 million as at 31 December 2013G to SAR 977.5 million as at 31 December 2014G, and average inventory holding period also increased from 122 days in 2013G to 138 days in 2014G, due to an increase in value of diamond and gold jewellery by SAR 99.3 million and in raw materials by SAR 35.6 million, accompanied by an increase in provision for melting costs and slow-moving

inventory items by SAR 5.9 million. As at 31 December 2015G, net inventories decreased slightly to SAR 975.6 million as a result of a decrease in value of diamond and gold jewellery by SAR 15.7 million, which was partially offset by an increase in raw materials by SAR 16.6 million to reach SAR 385.3 million as at 31 December 2015G from SAR 368.7 million as at 31 December 2014G. This was accompanied by an increase in provision for melting costs and slow-moving inventory items by SAR2.6 million. Over many years L'azurde Group has developed and continuously enhanced its business processes to maximise inventory control. L'azurde Group undertakes a complete and thorough gold count every month-end where all existing quantities of gold are checked in all departments and units in the Company. In addition, L'azurde Group undertakes daily random stock counts across all departments. The gold movement across departments and sections is tracked by L'azurde Group's ERP system and is supervised by a highly experienced team following strict guidelines and procedures.

The Company assigns several independent third-party auditors to check its gold count process and issue the related report on a quarterly basis. One of the lending banks' requirements is to rotate the independent auditors in reviewing the gold count process for each visit.

The distribution of gold jewellery in the market follows strict safety guidelines which are applied rigorously by the sales and security teams. Vehicles carrying gold jewellery are usually equipped with a GPS system enabling central control and tracking from L'azurde Group's main offices. All retail showrooms and wholesales branch offices have CCTV and alarm systems, which are regularly tested.

And to further reduce the risk of transportation and to have the Company and its products closer to its consumers, the Company has established many wholesale offices within the past few years. With the help of many specialised advisors in the field of security systems, the Company developed its security systems within its departments and units and within its business as a whole.

Also, the Company ensured in the previous years to have full insurance coverage policies covering many stages and processes within its business and its manufacturing aspect, starting from product design to production, distribution and sale. This full insurance coverage policy is an international policy under the name of "Jewelers Block" and is issued by March Insurance Advisory Company, a global leading company in broking insurance and risk management



#### 4.7.3.8 Certification

One of the most important priorities of L'azurde Group is to abide by the highest quality and safety standards and maintain a working environment with high standards. Such efforts have resulted in L'azurde Group obtaining several certifications from local and international organisations, shown in the table below:

**Table 4.34: L'azurde Group's Certifications from Local and International Organisations**

| Certification         | Entity  | Details   | Approval period                                   |
|-----------------------|---|---|---|
| ISO 9001:2008         | British Standards Institution   | The International Organization for Standardization (ISO) is an international standard-setting body which looks after quality ensuring that certified products conform to the minimum standards set internationally. BSI is the world's largest certification body. It audits and provides certification to companies worldwide that implement management systems standards.   | Commenced in 2005G and renewed every three years. |
| LBMA                  | London Bullion Market Association   | The LBMA benchmarks and regulates the acceptable requirements for large gold and silver bars through its regularly updated publication of the London Good Delivery Lists. These standards, recognised throughout the world, ensure that accredited refiners continue to maintain the high standards necessary for listing. The requirements for listing involve a stringent set of criteria that include a minimum level of production and tangible net worth, with a rigorous technical assessment to review casting, refining and assaying abilities. To ensure that the high standards are maintained, Accredited Good Delivery refiners are subject to ongoing testing under the LBMA's Proactive Monitoring programme. | Commenced in 2010G and renewed annually.          |
| DMCC                  | Dubai Multi Commodities Centre  | The DGD (Dubai Good Delivery) standard was developed by DMCC in 2005G and is regarded as the international benchmark for quality and technical specification for the production of gold and silver.   | Commenced in 2010G and renewed annually.          |
| OHSAS 18001:2007      | Guardian Independent Certification Ltd.                                   | OHSAS 18001 is an internationally applied British Standard for occupational health and safety management systems. It exists to help all kinds of organisations put in place demonstrably sound occupational health and safety performance. It is a widely recognised and popular occupational health and safety management system.  | Commenced in 2010G and renewed every three years. |
| PME                   | Presidency of Meteorology and Environment, Ministry of Defence & Aviation | A certificate given by the Presidency of Meteorology and Environment of Kingdom of Saudi Arabia for an institute which complies with certain rules and conditions of the environment. It's an environmental approval for operating companies.   | Commenced in 2010G and renewed every two years.   |
| Civil Defence Licence | Civil Defence, Ministry of Interiors                                      | A permit issued by the civil defence in Riyadh, the Kingdom confirming that the Company complies with applicable fire codes in the Kingdom.   | Commenced in 2010G and renewed every three years. |

Source: The Company



#### 4.7.4 Suppliers

L'azurde Group's strategy is to obtain its requirements for raw materials, machinery and equipment, sale and promotional services, and other requirements at the best quality, price and terms from trusted suppliers. Over time, L'azurde Group has built a strong network and database of trusted suppliers which meet L'azurde Group's needs from different sources at competitive terms. The main supply material for L'azurde Group's operations is gold, which L'azurde Group obtains from well-established long-term relationships with several lending banks through their global authorised suppliers of gold. As in most cases, lending banks do not keep physical gold but instead it is provided by an authorised supplier of gold globally which L'azurde Group chooses. For example, MKS (Switzerland) SA ("MKS"), is the main source of delivering gold borrowed from banks with a percentage of over 95% of the Company's total supplies. MKS is a global precious metals and financial services group of companies specialising in all aspects of gold and other precious metals processing and trading. In addition to that, there are many alternative companies that the Company could deal with, offering the same services under the same conditions.

Other than MKS, L'azurde Group's key suppliers in the years ended on 31 December 2013G, 2014G, and 2015G include the following:

**Table 4.35: L'azurde Group's key suppliers, excluding MKS**

| (Percentage of L'azurde Group's total purchases during the same related period) |                             |                   |                   |                   |   |
|---|-----------------------------|-------------------|-------------------|-------------------|---|
| Supplier  | Incorporation               | 2013G<br>L'azurde | 2014G<br>L'azurde | 2015G<br>L'azurde | Information about the suppliers   |
| Ahdaf (Starcom MediaVest)   | The Kingdom of Saudi Arabia | 7%                | 12%               | 10%               | Ahdaf is a supplier of advertising services to L'azurde Group.                |
| Interserve Marsh  | The Kingdom of Saudi Arabia | 5%                | 6%                | 5%                | Interserve Marsh is the supplier of insurance services to L'azurde Group.     |
| KGK Diamonds and Jewellery DMCC   | UAE                         | 1%                | 1%                | 6%                | KGK is a supplier of diamond jewellery and precious stones to L'azurde Group. |
| Reem Trading FZE  | India                       | -                 | -                 | 7%                | Reem Trading is a supplier of diamonds and precious stones to L'azurde Group  |

Source: The Company

#### 4.7.5 Marketing and Promotion

##### 4.7.5.1 The L'azurde Brand

The L'azurde brand name is today a well-established trusted, international brand with a respectable reputation. It is perceived as accessible luxury jewellery catering to Arab women. The L'azurde brand positioning of the 'Craftsman of Your Radiance' is inspired by women and their needs and has been developed with an international branding agency, Leo Burnett.

The "L'azurde" brand name was launched in 1995G and since then L'azurde Group has invested heavily in raising awareness of the L'azurde brand and building brand equity through major ongoing advertising campaigns. As a result, the L'azurde brand currently holds the leading position in the market supported by the highest awareness level in its category. In 2015G, L'azurde Group in cooperation with the research company called Taylor Nelson Sofres ("TNS") conducted a survey in the Kingdom to gauge the strength of its brand and determine the most popular jewellery trade names among clients in the jewellery industry. And according to the study, 'Unaided Awareness' is at an exceptional 91% awareness level and the 'Top of Mind' awareness level (i.e., unaided and first mentioned jewellery brand) reaches 47%, compared to the second highest 'top of mind' brand at only 11%.

The ongoing advertising and promotional support behind the brand name coupled with great quality products and consistent market performance have together led to the development of a strong brand equity in the category, where the L'azurde 'Power in the Mind' score has reached 25.2% according to a conclusions of aforementioned survey. This is reinforced with the corporate commitment of building a branded organisation that creates real value behind its brand by creating a differentiated proposition and offering it to its consumers. The L'azurde brand is a market leader and attracts a price premium, a position that can only be sustained through a solid proposition and a consistent brand and product performance.

The L'azurde brand is used to market both gold and diamond jewellery for sale through wholesale customers and in L'azurde branded retail shops. As such, the brand positioning has a broad appeal that can encompass and attract a wide target audience. The L'azurde positioning is therefore aimed to be aspirational yet relevant and appealing.

L'azurde Group's collaborations with several celebrities, fashion icons, bloggers and other influential persons have added significant value to the performance of the brand and strengthened the impact of marketing campaigns. L'azurde Group collaborates with celebrities such as Elissa, who is the L'azurde brand ambassador. L'azurde Group's strategy has been designed to cooperate with multiple celebrities with varying levels of fame and regional coverage to ensure an appropriate regional coverage for L'azurde Group's products and brand. L'azurde Group also collaborates with fashion designer Lady Fozaza in the GCC and has previously partnered with actress Dorra Zarrouk in Egypt.

#### **4.7.5.2 Branding Strategy**

In keeping with the brand positioning, great emphasis has been put behind L'azurde Group's approach to branding. Building a premium brand image that stands for craftsmanship and glamour has been the benchmark for the development and refinement of the brand logo and branding architecture. Clear and comprehensive brand guidelines were developed to ensure a unified look and feel across all consumer and branding touch points. This included the above-the-line communication (TV, Print, outdoor) or below-the-line point of sale material, such as brochures and posters, as well as a gradual transition across retail outlets towards a premium and modern look.

It is critical for the brand to have a consistent positioning and brand experience in the market to be able to fully leverage it. Consequently, L'azurde Group is addressing its core target audience through one brand name, "L'azurde". In order to drive differentiation between gold and diamond products, the brand architecture has been developed to incorporate product descriptors for different categories, such as: L'azurde Diamonds and L'azurde Wedding Bands. This model allows the brand to expand into new market segments using the L'azurde brand name in a clear manner.

L'azurde Group has also ventured into a lower price value diamond segment which is separate from the L'azurde brand positioning, through the use of a sub-brand named "Kenaz" in order to avoid affecting the core L'azurde brand image. Kenaz is therefore sold in the wholesale market as "Kenaz by L'azurde".

To be able to address different consumer needs in jewellery design, the brand uses branded collections to leverage specific design themes, consumer segments and products technology. This is achieved by creating sub-branded collections, such as the "Diva" gold collection and the "Dantelle" collection, which are promoted through above-the-line and below-the-line advertising channels. The same model is applied to the diamonds jewellery line with L'azurde Diamonds Juman collection, L'azurde Diamonds Art collection and others. This allows for focus and support behind individual collections that drive higher profitability and help create iconic themes.

#### **4.7.5.3 Key Marketing Channels**

L'azurde Group adopts a '360 degree' approach (utilising multiple touch points to reach consumers in a comprehensive way) in its marketing plan, targeting consumers across different channels and communication mediums.

Given its critical role in communication and its broad reach, TV maintains the biggest share of the brand advertising expenditure. L'azurde Group also allocates strong marketing support behind outdoor campaigns and print media with a focus on the leading lifestyle magazines to improve the brand image and better reach the target audience. Whilst the 'Above the Line' (i.e., TV, print, outdoor) support maintains the biggest share of expenditure, the brand is careful to maintain a physical presence through activation in shopping malls and gold souks, developing promotions that reward consumers, drive customer spending and build brand loyalty.

With digital advertising and social media becoming increasingly important tools, L'azurde Group is the largest local spender in this channel and has also made major milestones in the development of its social media channels, such as Facebook, Instagram, YouTube and Twitter.

#### **4.7.6 Geographic Locations and Operations**

L'azurde Group's head office is located in the city of Riyadh, Kingdom of Saudi Arabia. As at 31 December 2015G, L'azurde Group operated directly in 18 wholesale offices within the Kingdom and in the United Arab Emirates, Qatar, and Egypt, with three manufacturing units (one in the Kingdom and two in Egypt), 14 retail showrooms (located across the Kingdom, UAE and Egypt). In addition, L'azurde Group sells its

products in 52 countries through a network of exclusive and non-exclusive distributors, wholesalers and retailers. The table below lists the locations in which L'azurde Group operated as at 31 December 2015G:

**Table 4.36: Details of L'azurde Group's Geographical Presence as at 31 December 2015G**

| Country                 | City                | Operating Company            | Nature of Presence  |
|-------------------------|---------------------|------------------------------|---|
| Kingdom of Saudi Arabia | Riyadh <sup>1</sup> | The Company                  | Headquarters, factory, wholesale offices and retail shops |
| Egypt                   | Cairo <sup>2</sup>  | OroEgypt                     | Factory and wholesale offices                             |
|                         | Cairo <sup>2</sup>  | L'azurde Egypt LLC           | Factory, wholesale offices and retail shops               |
| UAE <sup>3</sup>        | Dubai               | L'azurde Dubai               | Trading and wholesale offices and retail shops            |
|                         | Abu Dhabi           | L'azurde Abu Dhabi           | Trading, wholesale office                                 |
| Qatar <sup>4</sup>      | Doha                | L'azurde Qatar               | Wholesale office  |
| Kuwait <sup>5</sup>     | Kuwait              | L'azurde Company For Jewelry | Branch <sup>5</sup>                                       |

Source: The Company

1- The Company has four wholesale offices across the Kingdom.

2- The Company has 11 wholesale offices across Egypt.

3- The Company has two wholesale offices in the UAE.

4- The Company has one wholesale office in the Qatar.

5- The Company has a registered branch in Kuwait, which has no operational activity as at the date of this Prospectus

The following table shows L'azurde Group's assets inside and outside the Kingdom and their percentage outside the Kingdom of L'azurde Group's total assets as on 31 December of the years 2013G, 2014G, and 2015G.

**Table 4.37: Net Value of L'azurde Group's Assets Inside and Outside the Kingdom and their Percentage of L'azurde Group's Total Assets outside the Kingdom as at 31 December 2013G, 2014G and 2015G:**

| Assets inside and outside the Kingdom (SAR '000)                       | 2013G     | 2014G     | 2015G     |
|--|-----------|-----------|-----------|
| Egypt  | 444,476   | 477,280   | 480,760   |
| GCC other than the Kingdom   | 120,932   | 172,136   | 159,841   |
| Total assets outside the Kingdom                                       | 565,408   | 649,416   | 640,601   |
| Total assets inside the Kingdom  | 824,158   | 987,998   | 1,126,841 |
| Total assets   | 1,389,566 | 1,637,414 | 1,767,442 |
| Percentage of assets outside the Kingdom in proportion to total assets | 41%       | 40%       | 34%       |

Source: The Company

In 2015G, total assets outside the Kingdom decreased as a percentage of total assets to 34% from 41% in 2013G due to a decrease in cash held in Egypt which in turn decreased from SAR 48.5 million in 2014G to SAR 27.2 million in 2015G. This is mainly due to L'azurde Group's policy in transferring cash or extra gold weight equal to the stones added to jewellery from Egypt to the Kingdom.

#### 4.7.7 Product Design and Development

L'azurde Group invests significant resources in developing attractive, high quality jewellery designs and collections to win consumers' hearts and minds. Each year, L'azurde Group introduces a large number of new designs of gold (21k and 18k lines) and diamond jewellery. The product development process starts with a brief issued to L'azurde Group's Design section which will first issue the concepts and designs on paper. L'azurde Group's design section is a creative division of L'azurde Group where new innovative ideas are developed by highly experienced jewellery designers to meet the range of consumer tastes across the MENA region and across international markets where L'azurde Group's jewellery is sold. L'azurde Group's designers regularly attend jewellery fairs and fashion forums to enhance their skills and bring to the industry jewellery designs that are in line with the latest fashion and jewellery trends. In addition to L'azurde Group's in-house jewellery designers, L'azurde Group collaborates with freelance designers based in the region, Europe, and the US to continuously innovate and bring new concepts and designs.

Once the design is approved, the silver modelling section will then make a model for final review before moving to the production process. The silver modelling section is the model creation division of L'azurde Group where all approved designs or ideas are developed into actual jewellery pieces made in silver by experienced model makers and goldsmiths. Each design is strictly supervised by the Product Development management team to ensure that all the model requirements are perfectly executed.

L'azurde Group offers many diamond and gold jewellery collections to meet consumer requirements for a variety of different occasions. The collections are marketed according to their specific concept.

## **4.8 Growth Opportunities**

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

## **4.9 Future Plans and Initiatives**

L'azurde Group is expanding in Egypt by building a new factory which is expected to be fully operational by the second quarter in 2016G and will have a capacity of 15 tons of gold jewellery per year. Also, it will specialise in manufacturing 18k gold wear. The building of the new factory has been already completed and the production lines, technical-setup and machinery connections are being installed. The total capital expenditure in connection with this new factory is around SAR 12.8 million.

L'azurde Group is also working on developing new innovative product lines and collections, as well as introducing new manufacturing technologies, which will be launched in 2016G across all markets in which it operates.

## **4.10 Administrative Support Departments**

L'azurde Group has a number of administrative departments that support its various business activities. Set out below is a brief description of the activities of L'azurde Group's key administrative support departments:

### **4.10.1 Human Resources Department**

The Human Resources Department is responsible for hiring, developing and retaining the appropriate resources to help L'azurde Group achieve its objectives. In addition, the Human Resources Department is responsible for employees' compensation and employees' relations. In particular, the Human Resources Department performs the following functions:

- (a) Employing highly qualified, trained and experienced staff matching the requirements of L'azurde Group;
- (b) Developing and preparing job descriptions, a grading system and employment policies and procedures;
- (c) Orienting and organising guidance programmes for newly appointed employees;
- (d) Providing guidance and following up with periodical performance assessments;
- (e) Ensuring compliance with Saudisation requirements, social insurance regulations and other relevant regulations; and
- (f) Supporting the welfare of employees through organising social activities and providing medical insurance and other relevant services.

L'azurde Group believes that it invests sufficient funds in the training and development programmes offered to employees either through in-house training, external training courses, sponsoring the attendance of seminars and exhibitions, and the pursuit of professional qualifications.

#### 4.10.2 Production Department

The Production Department is responsible for fulfilling L'azurde Group sales plan and ensuring the provision of the required finished products with the required quality, at the lowest cost and within plan. In particular, the Production Department performs the following:

- (a) Production of new models and collections according to market needs;
- (b) Reviewing the monthly sales plan and conducting a comparative analysis against available production capacity, identifying gaps and required resources and preparing manpower and production capital expenditures plans;
- (c) Planning daily production orders to maximise use of available manpower and machinery, managing capacity and production processes, and ensuring effective workflow and maximum production output;
- (d) Ensuring that L'azurde Group's employees are adequate in number, properly trained and suitably equipped to perform their roles;
- (e) Ensuring that production facilities, machinery and equipment are in the best working condition and continuously seeking new ways to maximise their output;
- (f) Ensuring safety of facilities, personnel and environment;
- (g) Comparing production outputs, costs and targets, taking corrective actions and seeking cost-saving opportunities; and
- (h) Enhancing production technologies by upgrading the existing equipment and/or investing in new technologies.

#### 4.10.3 Procurement Department

The Procurement Department is responsible for obtaining the required materials, consumables, spare parts, machinery, equipment and other items required by L'azurde Group within the required timeframe and at the required quality, price and terms. In particular, the Procurement Department is responsible for:

- (a) Developing detailed procurement plans in accordance with sales and production requirements and reflecting sales and production plans into a quantified plan with detailed specifications of materials, goods and services to be purchased;
- (b) Developing a criteria matrix for suppliers' selection and performance evaluation and maintaining a list of preferred suppliers for each category;
- (c) Selecting suitable suppliers and negotiating the best available commercial terms and agreements;
- (d) Issuing orders to selected suppliers and following up with such suppliers until the items procured are received in conformity with the agreed terms; and
- (e) Performing regular checks and surveys in the relevant market for new suppliers, materials and better commercial terms.

#### 4.10.4 Marketing Department

The Marketing Department is mainly responsible for setting out marketing strategies, in line with overall strategies and objectives of L'azurde Group, and executing marketing campaigns to strengthen the L'azurde brand, increase consumers' base, grow sales and increase market share. In particular, the Marketing Department performs the following:

- (a) Developing L'azurde Group's marketing strategies for growth, expansion and increasing market share;
- (b) Converting L'azurde Group's strategies into specific executive plans to increase and enhance the brand equity and promote sales;
- (c) Planning and executing appropriate advertising and promotional activities and evaluating their effectiveness;
- (d) Gathering market and competitive intelligence and monitoring competitors' activities;
- (e) Performing periodic market research aimed at understanding consumers' demands, needs and preferences and evaluating the brand's key performance indicators; and
- (f) Recommending products' designs, collections, trends and pricing.

#### 4.10.5 Sales Department

The Sales Department is responsible for the wholesale of products to third-party retailers, L'azurde Group's retail stores. The Sales Department's main responsibilities include understanding the customers' needs, maximising the distribution of L'azurde Group's products in the targeted markets, and managing the daily sales operations and collections of receivables. In particular, the Sales Department performs the following functions:

- (a) Understanding and determining the needs of customers;
- (b) Understanding the market and ensuring the effective distribution of products;
- (c) Providing recommendations in relation to competitive pricing;
- (d) Ensuring customers' satisfaction with the provided products and services;
- (e) Exploring new channels and potential markets for L'azurde Group's products;
- (f) Preparing periodic reports, update sales reports and monitoring inventory status on a daily basis;
- (g) Performing promotional activities and road shows, providing point of sale (POS) materials and ensuring effective merchandising;
- (h) Recommending credit terms for each customer and following up on their outstanding balances; and
- (i) Collecting due balances from customers, calculating cash and commercial discounts in accordance with L'azurde Group's policies, and depositing collection on a daily basis.

#### 4.10.6 Legal Department

The key responsibilities of the Legal Department include the following functions:

- (a) Reviewing legal, constitutional and contractual documents, and providing legal advice to the Board of Directors and L'azurde Group's senior management in connection with the legal affairs of L'azurde Group;
- (b) Preparing contracts and agreements;
- (c) Representing L'azurde Group before judicial bodies and filing and pursuing lawsuits against other parties;
- (d) Providing legal advice to L'azurde Group's administrative departments;
- (e) Reviewing laws, regulations, circulars and directives relevant to L'azurde Group's business; and
- (f) Supervising the holding of General Assembly meetings and liaising with the relevant Government authorities.

#### 4.10.7 Information Technology Department

The Information Technology Department is mainly responsible for ensuring that L'azurde Group employs the appropriate technologies to support its activities and future expansion plans and to secure its information and systems. In particular, the Information Technology Department performs the following functions:

- (a) Understanding L'azurde Group's strategic objectives and determining the appropriate information technology resources and infrastructure in accordance with approved instructions, procedures and standards;
- (b) Maintaining systems, servers, storage units and L'azurde Group's network in the best working condition;
- (c) Managing access and restrictions in relation to the users of information technology resources and infrastructure;
- (d) Managing, maintaining and upgrading L'azurde Group's enterprise resource planning (ERP) system;
- (e) Automating processes and reports to ensure the provision of the appropriate information to the appropriate users in a timely manner; and
- (f) Ensuring safety and security of L'azurde Group's information and, in particular, the availability and effectiveness of disaster recovery plans and the safety from potential cyber attacks against L'azurde Group's systems.



#### 4.10.8 Finance Department

The Finance Department is responsible for providing L'azurde Group with accurate information in a timely manner to support the decision-making process, safeguard L'azurde Group's assets and ensure the application of strong internal control systems uniformly across L'azurde Group. In particular, the Finance Department performs the following functions:

- (a) Managing the financial reporting process, ensuring the financial information is reported in an accurate and a timely manner, setting out accounting policies and procedures, and ensuring compliance with relevant regulatory requirements;
- (b) Managing and leading the financial planning process, supporting L'azurde Group's senior management in setting financial strategies, converting agreed strategies into financial plans, and reviewing the plans of L'azurde Group's departments to ensure efficiency, accuracy and alignment with the agreed strategies;
- (c) Ensuring availability of sufficient funds and liquidity to meet L'azurde Group's current and future plans and obligations;
- (d) Managing and optimising working capital requirements;
- (e) Developing and improving L'azurde Group's internal control systems, policies and procedures to safeguard L'azurde Group's assets and ensuring efficient workflow and compliance with corporate governance requirements;
- (f) Managing payments to suppliers and relationships with banks;
- (g) Developing and measuring key performance indicators for L'azurde Group's activities and performance, and providing recommendations in connection therewith;
- (h) Identifying and mitigating L'azurde Group's risks by ensuring that L'azurde Group's assets are covered by adequate insurance policies, reducing currency and interest rate risks and close monitoring of credit risks;
- (i) Preparing and filing Zakat and tax return filings; and
- (j) Collaborating and liaising with internal and external auditors for conducting effective audits of L'azurde Group's financials and key processes.

#### 4.10.9 Internal Audit Department

The key responsibilities of the Internal Audit Department include the examination and evaluation of the adequacy and effectiveness of L'azurde Group's corporate governance policies, risk management and internal control systems.

The Internal Audit function is an independent function that reports directly to the Audit Committee. To further promote independence, the Internal Audit staff do not have operational responsibilities. The functions, powers and responsibilities of the Internal Audit department are documented in the Internal Audit Charter, which is approved by the Audit Committee and published within the Company.

The Internal Audit department at L'azurde Group supplements its role with the assistance of an external third party audit firm, Aneja Associates. Aneja Associates, an Indian firm, has been working with L'azurde Group since 2012G and undertakes two to three assessments per year of its internal audit controls such as costing systems, security processes, Gold count procedures, accounting and purchasing policies, IT systems and others. The findings of Aneja Associates are presented to the Audit Committee who then recommends actions to address these findings where appropriate.

The detailed functions of the Internal Audit department are as listed below:

- (a) Evaluating risk exposure relating to the achievement of L'azurde Group's strategic objectives;
- (b) Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information;
- (c) Evaluating the systems established to ensure compliance with the policies, plans, procedures, laws and regulations that may have a significant impact on L'azurde Group;
- (d) Evaluating the means by which L'azurde Group's assets are safeguarded and, as appropriate, verifying the existence of such assets;
- (e) Evaluating the effectiveness and efficiency of the means by which L'azurde Group's resources are employed;
- (f) Evaluating L'azurde Group's operations and programmes to ascertain whether results are consistent with L'azurde Group's objectives and goals and whether such operations and programmes are being carried out as planned;
- (g) Monitoring and evaluating corporate governance processes;



- (h) Monitoring and evaluating the effectiveness of risk management processes;
- (i) Evaluating the quality of performance of external auditors and the degree of coordination with the Internal Audit Department;
- (j) Providing consultancy and advisory services to L'azurde Group in relation to corporate governance, risk management and control;
- (k) Periodically reporting on the purpose, activities, authority and responsibility of the Internal Audit Department as well as the performance of its plan;
- (l) Reporting significant risk exposures and control issues, including fraud risks, corporate governance issues and other related matters as requested by the Audit Committee; and
- (m) Evaluating specific operations at the request of the Audit Committee or L'azurde Group's senior management.

#### **4.11 Business Continuity**

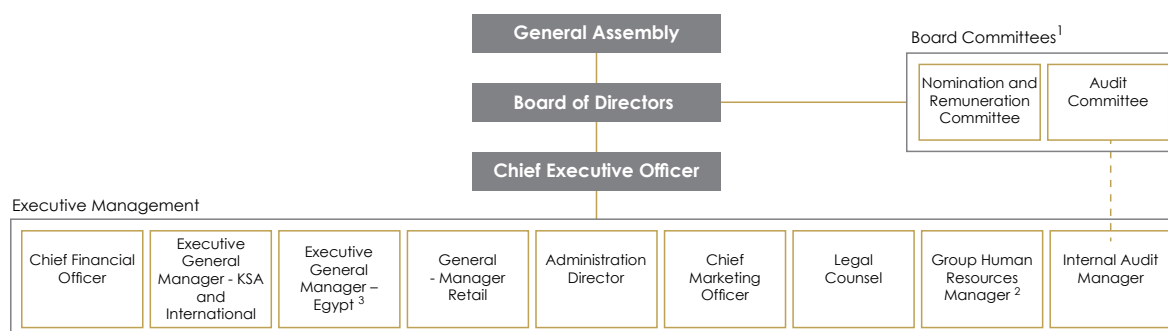
There has been no suspension or interruption in L'azurde Group's business or that of its Subsidiaries during the twelve month period preceding the date of this Prospectus which would affect or have a significant impact on their financial position and no material change in the nature of its or their business is contemplated.

## 5. Organisational Structure and Corporate Governance

The Shareholders of the Company delegate responsibility to the Board of Directors for the overall direction, supervision and control of the Company. The Board of Directors delegates responsibility for overall dayto day management of the Company to the senior management of the Company and, in particular, the Chief Executive Officer.

The following chart sets out the organisational structure of the Company:

**Exhibit 5: Organisational Structure of the Company**



Source: The Company

1- From time to time, there are other temporary committees of the Board of Directors, currently including the IPO Advisory Committee and the Executive Committee.

2- The Group Human Resources Manager is an employee of L'azurde Egypt.

3- The Executive General Manager – Egypt is an employee of L'azurde Egypt.

### 5.1 Board of Directors and Secretary of the Board

#### 5.1.1 Composition of the Board of Directors

The Board of Directors is comprised of nine Directors who are appointed by the General Assembly by means of cumulative vote, and the Companies' Regulations, the Corporate Governance Regulations, the By-Laws and the internal governance regulations of the Company shall determine the duties and responsibilities of the Board of Directors. The term of the Directors' membership in the Board of Directors, including the Chairman, shall be for a maximum period of three years.

The following table sets out the names of the Directors as at the date of this Prospectus:

**Table 5.1: Company's Board of Directors**

| Name                               | Position | Nationality | Status        | Independence    | Direct Share Ownership <sup>1,2</sup> |               | Indirect Share Ownership |               | Date of Appointment <sup>3</sup>         |
|------------------------------------|----------|-------------|---------------|-----------------|---------------------------------------|---------------|--------------------------|---------------|--|
|                                    |          |             |               |                 | Pre-Offering                          | Post-Offering | Pre-Offering             | Post-Offering |  |
| Mohammed Ebrahim Juma Al Shroogi   | Chairman | Bahraini    | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 2/7/1434H (corresponding to 12/5/2013G)  |
| James Leonard Tanner               | Director | British     | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 28/3/1433H (corresponding to 20/2/2012G) |
| Brian Norman Dickie                | Director | Irish       | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 2/1/1437H (corresponding to 15/10/2015G) |
| Abdullah Abdulaziz Saleh Al Othaim | Director | Saudi       | Non-executive | Non-independent | 0.019%                                | 0.0023%       | N/A                      | N/A           | 29/10/1434H (corresponding to 5/9/2013G) |
| Wassim Mohammad Assim Al Khatib    | Director | Saudi       | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 2/1/1437H (corresponding to 15/10/2015G) |

| Name                           | Position | Nationality | Status        | Independence    | Direct Share Ownership <sup>1-2</sup> |               | Indirect Share Ownership |               | Date of Appointment <sup>3</sup>          |
|--------------------------------|----------|-------------|---------------|-----------------|---------------------------------------|---------------|--------------------------|---------------|---|
|                                |          |             |               |                 | Pre-Offering                          | Post-Offering | Pre-Offering             | Post-Offering |   |
| Hani Ibrahim Ahmed Obaid       | Director | Saudi       | Non-executive | Non-independent | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 14/6/1434H (corresponding to 24/4/2013G)  |
| Abdul Kareem Assad Abu Alnasr  | Director | Saudi       | Non-executive | Independent     | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 21/5/1437H (corresponding to 01/03/2016G) |
| Amin Mohamed Akef Al-Magh-rabi | Director | Saudi       | Non-executive | Independent     | 0.0023%                               | 0.0023%       | N/A                      | N/A           | 21/5/1437H (corresponding to 01/03/2016G) |
| Vacant <sup>4</sup>            | Director | -           | Non-executive | Independent     | -                                     | -             | N/A                      | N/A           | -   |

Source: the Company

1- By virtue of the Company's By-Laws, each Director shall own Shares in the value of at least SAR 10,000 deposited with an authorised bank ("Qualification Shares"). After completion of the listing of the Company's shares on the Exchange, such Qualification Shares will be deposited with an Authorised Person.

2- The shareholding percentages are rounded.

3- Dates listed in this table are the dates of appointment in the current positions in the Board of Directors. Their respective biographies in Section 5.1.4 ("Biographies of the Members of the Board of Directors and of the Secretary of the Board of Directors") describe the dates of their appointment, whether in the Board of Directors or in any other position, before these positions. At the Extraordinary General Assembly meeting held on 2/1/1437H (corresponding to 15/10/2015G) the accumulative voting method was adopted.

4- The Company shall appoint an independent director not later than the first Ordinary General Assembly after the Offer. Pursuant to the Company's By-Laws, the Directors that will be appointed shall own Qualification Shares from the listed shares on the Saudi Stock Exchange.

The current Secretary of the Board of Directors is Mr Ayman Gamil and he does not hold any Shares in the Company.

## 5.1.2 Responsibilities of the Board of Directors

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

The Board of Directors delegates power to two committees which report to the Board of Directors, consisting of the Audit Committee and the Nomination and Remuneration Committee (collectively, the "Committees"), and a number of administrative departments with responsibility for dealing with a range of operational and business matters (for further details regarding the Company's administrative departments, please see Section 4.10 ("Administrative Support Departments")). In addition, the Board of Directors has the power to form any number of committees it considers necessary for effective governance, oversight and operations of the Company or to delegate some of its powers to third parties. As at the date of this Prospectus, in addition to the above permanent Committees, the Board of Directors has formed an ad hoc IPO Advisory Committee advising the Board of Directors in connection with the Offering that will dissolve upon the completion of the Offering and an ad hoc Executive Committee advising the Board of Directors in connection with various matters in connection with the business of L'azurde Group. However, despite any delegation, the ultimate responsibility for the Company rests with the Board of Directors.

The responsibilities of the Chairman and other members of the Board of Directors can be summarised as follows:

### 5.1.2.1 The Chairman

The Chairman shall assume the following responsibilities:

- Promoting a constructive relationship between the Board of Directors and senior management, and executive and non-executive Directors;
- Ensuring the Board of Directors' agenda's focus on the Company's strategy and performance, providing a value to shareholders, and accountability on all levels;
- Promoting a culture that supports constructive criticism during meetings and alternative views in respect of considered subjects and encouraging discussions in respect of such matters and voting thereon;

- Ensuring that managers and shareholders receive sufficient information in a timely manner;
- Assigning managers with tasks and following them up; and
- Ensuring that managers disclose their businesses and any conflict of interest in respect of any matter discussed in the Board of Directors meetings.

#### **5.1.2.2 The Board of Directors**

The Board of Directors shall assume the following responsibilities:

- Participating in direction and general management of the company;
- Supervising Committees in line with the company's policies and objectives;
- Approving the hiring of the Chief Executive Officer and Executive Financial Officer and Director of Internal Audit;
- Preparing a comprehensive strategy for the Company, the main work plans and the policy related to the risk management;
- Determining the most appropriate capital structure of the Company, its strategies and financial objectives and approving its annual budgets;
- Managing the main capital expenses of the Company and the acquisition and disposal of assets;
- Determining the performance objectives sought and supervising the implementation thereof;
- Monitoring the Company's performance in general;
- Reviewing and approving the Company's organisational and functional structures;
- Developing a written policy that organises conflicts of interests and addresses any possible conflicts of interests by managers, senior management and shareholders;
- Developing written policies that organise the Company's relationship with shareholders, including policies related to compensating shareholders and settling complaints and disputes arising between the Company and shareholders;
- Developing the policies related to maintaining relationships with clients and suppliers and protecting confidentiality of relevant information;
- Developing a Code of Conduct for the Company's executive heads and employees in line with professional and ethical appropriate criteria;
- Developing policies related to the Company's social contributions;
- Developing policies and procedures to ensure the Company's compliance with the applicable laws and regulations and its continuing commitment to disclose important information for shareholders and other concerned parties;
- Developing and implementing policies, criteria, and procedures related to membership of the members of the Board of Directors;
- Ensuring that the developed strategy and plan is suitable for the Company's current resources, level of risk, economic and market conditions, and extent of growth ;
- Ensuring the integrity of financial and accounting procedures, including procedures related to preparing financial reports;
- Ensuring the implementation of suitable monitoring procedures of risk management through predicting the risks that might be faced by the Company and transparent disclosure thereof;
- Holding a meeting in the fourth quarter of each year to approve the general budget for the following year;
- Forming Board committees with specific competencies, approving their charters (other than the Committees Charter), and hiring members thereof;
- Evaluating the performance of Company's senior management in respect of strategy implementation;
- Ensuring the existence of a proper internal control system (supported by the Audit Committee) and implementing and applying it on all levels;
- Ensuring compliance with the Company's Governance Regulations, policies and procedures;
- Approving the delegation system of powers, budgets and financial statements;
- Determining powers to be assigned to the Company's senior management members;
- Approving commencement and termination of new business;
- Reviewing the performance of Committees formed by the Board of Directors;
- Reviewing compliance with the authority system;
- Reviewing the effectiveness of the Company's control systems;

- Ensuring disclosure of main commercial transactions and transactions of relevant parties in the Board of Directors' annual report;
- Calling for the convening of the General Assembly at least once a year and within the six months following the end of the Company's financial year;
- Reviewing the Company's Governance Regulations periodically, assessing whether there is a need for necessary changes in view of updated Regulations and any change in practices, and informing the Board's Secretary of such change; and
- Providing recommendations to shareholders in respect of distributing dividends in accordance with the Company's distribution of dividends policy.

### **5.1.2.3 Board of Directors' Secretary**

The Board of Directors' Secretary shall assume the following responsibilities:

- Managing all the administrative, technical, and logistic affairs related to meetings of the Board of Directors and General Assembly;
- Managing and coordinating the agendas of the Board of Directors and Committees meetings;
- Attending Board Meetings;
- Preparing visual presentations, preparing and distributing minutes of meetings, archiving all data, information and records related to the Board of Directors and Committees and monitoring the implementation of decisions passed by the Board of Directors and Committees;
- Ensuring flow of information in the Board of Directors and between the Board members and Company's executive management;
- Preparing and maintaining a record of the Board of Directors and Committees' procedures and decisions and preserving the Company's official records;
- Managing and developing the Board of Directors Secretariat Department;
- Acting as a liaison with the Capital Market Authority and other official institutions and ensuring compliance with the requirements of Corporate Governance and other relevant regulations;
- Helping the Company in updating and implementing the Corporate Governance processes;
- Helping the Nomination and Remuneration Committee in preparing and implementing the new managers induction program;
- Preparing status reports in respect of the Board of Directors' decisions and implementation thereof;
- Ensuring the managers commitment with procedures, rules, and regulations applied to the Board of Directors;
- Maintaining the Company's Corporate Governance guide and annually updating thereof in accordance with the Board of Directors instructions; and
- Performing any other tasks based on the Board of Directors.

Also, the Board of Directors shall strike a balance among the interests of different parties related to the Company including clients, employees, suppliers, and local communities where the Company does its business. The Board of Directors remains fully responsible for good performance of its tasks and obligations (even in respect of those assigned to a third party).

### **5.1.3 Service Contracts with Directors**

There are no service contracts entered into between the Directors and the Company.

## 5.1.4 Biographies of the Members of the Board of Directors and of the Secretary of the Board of Directors

The experience, qualifications and the current and other positions of each of the Directors and the Secretary of the Board of Directors are set out below:

### 5.1.4.1 Mohammed Ebrahim Juma Al Shroogi, Chairman

**Nationality:**

- Bahraini.

**Age:**

- 63 years.

**Academic and Professional Qualifications:**

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

**Current Positions:**

- Chairman of the board of Golf Cooperation Council Board Directors institute, non-profit organization, focuses on raising awareness of the importance of promoting professionalism of the members of Boards of Directors and enhancing their efficiency in the region, since 2015G;
- Co-Chief Executive Officer, Investcorp Bank B. S. C., a Bahrain shareholding company, banking and financial services, since 2015G;
- Chairman of the Board of Directors, L'azurde Company for Jewelry , since 2013G;
- A director at the Crown Prince's International Scholarship Program, since 2000;
- A member at the board of trustees of Bahrain Center for studies and research, Bahraini research institute conducting special applied research on pension basis, consultancy services to private and public sectors, since 1995G; and
- A director at the National US-Arab Chamber of Commerce, aims at enhancing and supporting US-Arab work and economic cooperation, since 1995G.

**Past Professional Experience:**

- President of Gulf Business, Investcorp Bank B.S.C., a Bahrain shareholding company, banking and financial services, 2009G–2015G;
- Chief Executive Officer, United Arab Emirates, Citigroup, Inc., banking and financial services, 2006G–2009G;
- Chief Executive Officer, for the Middle East and North Africa region, Citigroup, Inc., banking and financial services, 2004G–2006G;
- Head of treasury and chief executive officer of Bahrain and states where no banks are owned, Citygroup, Inc , banking and financial services, since 1986G until 2004G;
- A member at the Bahraini Consultative Council from 2002G until 2006G; and
- An assistant manager of treasury department in Bahrain branch, Citygroup, Inc, banking and financial services, since 1976G until 1979G.

### 5.1.4.2 James Leonard Tanner, Director

**Nationality:**

- British.

**Age:**

- 55 years.

**Academic and Professional Qualifications:**

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

**Current Positions:**

- Director at Arvento Mobile System, Closed joint stock company, a pioneering company in information technology, designing, developing, and selling its collection of devices and software applications products, since 2015G;
- Member at the board of managers at Hydrasun holding group, Limited Liability Company, Pioneering and specialised company in the field of providing integrated fluid transporting solutions, since 2014G;
- Director at Al Yusr Industrial contracting company, a closed joint stock company, a pioneering company in the field of providing petrochemical industrial services, oil and gas sector, since 2013G;
- Director, L'azurde Company for Jewelry , since 2012G;
- Director at TİRYAKİ AGRO, a closed joint stock company, trading and supplying agricultural products, since 2011G;
- A director at Gulfcryo holding company, a private company, a Pioneering company in the field of producing industrial gas, the middle east, since 2011G;
- General Manager, and head of companies' investments, the Middle East and North Africa, Invescorp Bank, Bahraini joint stock company, banking and financial services, since 2010G;
- Director, Kingdom Investcorp for investment, private company, investment banking services, subsidiary of Bahrain Investcorp Bank, since 2010;
- Director, OroEgypt for Manufacturing Precious Metals, joint stock company, since 2010G; and
- Director, Orca holding company, closed joint stock company, pioneering company in men's wear retail in Turkey, Since 2012G.

**Past Professional Experience:**

- Director, Redington International Holding Limited, private company, computers and software distributor across the Middle East and North Africa, from 2011G until 2012G;
- Director, InvestCorp, Luxembourg, holding financial company, investment and consultancy services related to capital market, international real estate and fund management, from 2010G to 2010G;
- General manager, relations and investment, Investcorp Bank (Bahraini joint stock company), specialised in financial and banking services, from 2008G to 2010G;
- Managing director, head of relations department, Investcorp Bank, Bahraini joint stock company, banking and financial services, since 2008G until 2010G;
- Managing Director and Member of the Board of Directors, Morley Fund Management Ltd. (now known as Aviva Investors), a limited company, financial services, 2005G–2008G;
- Managing Director – Global Markets (Europe and Middle East), HSBC Holdings plc, a public limited company, banking and financial services, 2002G–2004G;
- Managing Director – Head of International Private Client Group (Asia-Pacific), Morgan Stanley & Co., Inc., banking and financial services, 2001G–2002G;
- Managing Director and Chief Executive Officer, Morgan Stanley Investment Management Limited, a limited company, banking and financial services, 1996G–2001G;
- Managing Director and Chief Operating Officer, Morgan Stanley Investment Management Limited, a limited company, banking and financial services, 1993G–1996G;
- Executive Director – Fixed Income Division, Morgan Stanley & Co., Inc., banking and financial services, 1990G–1993G;
- Vice President – International Fixed Income Division, Morgan Stanley & Co., Inc., banking and financial services, 1988G–1990G;
- Vice President – Fixed Income Division, Morgan Stanley & Co., Inc., banking and financial services, 1984G–1988G; and
- Associate – Equity and Fixed Income Division, Morgan Stanley & Co., Inc., banking and financial services, 1983G–1984G.



#### 5.1.4.3 Brian Dickie, Director

**Nationality:**

- Irish.

**Age:**

- 60 years.

**Academic and Professional Qualifications:**

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

**Current Positions:**

- Director, L'azurde Company for Jewelry , since 2015G;
- Hydrasun Board of Managers Chairman, a limited liability company, distributing and manufacturing hydraulic machines and devices and related products for international oil industry below sea surface, since 2013G;
- A director (non-executive), Sistema, a joint stock company listed in Moscow and London, a top-ten investment company in the Russian Federation, since 2010G;
- Chief executive officer, Ecopal Company, Denmark, a privately-owned company, top water proof ceiling provider in Europe, substantial operations in the USA, Since July 2007G;
- Director, Pliconcept, Amsterdam, a privately-owned company, one of the top international promotional goods providers, since 2005G; and
- Senior Advisor, Investcorp International Ltd., a limited company, investments in European private equity, UK, specialised in banking and financial services, since 2003G.

**Past Professional Experience:**

- Director, Afghanistan International Bank, a closed joint stock company, biggest private bank in Afghanistan, from 2012G until 2015G;
- Director, Enpro, Norway, a public limited company, operating in the field of carbon mining and production of chemical substances and products, 2012G until 2013G;
- Director, Auto distribution Company (public limited company), top independent distributor of cars spare parts in France Poland, since 2008G until 2010G;
- General manager, Investcorp International, (a limited liability company), investment in European private equity, UK, specialised in banking and financial services, since September 2003G until October 2010G;
- President – North America, TXU Energy Corporation, a limited liability company, energy, 1999G–2003G;
- President and Chief Operating Officer, Booz, Allen & Hamilton, Inc., consultancy services, 1993G–1998G;
- Managing Partner, Booz, Allen & Hamilton, Inc., consultancy services, 1981G–1993G; and
- Vice-president, Central Bank of Cleveland, a company operating in the field of finance, specialised in banking and financial services, since 1978G until 1981G.

#### 5.1.4.4 Abdullah Abdulaziz Saleh Al Othaim, Director

**Nationality:**

- Saudi.

**Age:**

- 29 years.

**Academic and Professional Qualifications:**

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

**Current Positions:**

- Director, L'azurde Company for Jewelry, since 2013G;
- Director – Strategic Planning, Abdulaziz Al Othaim & Sons Holding Company, a limited liability company, investments, since 2012G; and

- Director, Aswar United Real Estate Development Company, a limited liability company, real estate development and construction, sales, rent of housing and commercial buildings, since January 2012G.

**Past Professional Experience:**

- Member, committee for restructuring and designing bylaws and internal procedures for Manazel Construction company, specialised in building and constructing commercial buildings, housing, and recreational projects, renting and maintenance services, internal design services, during the period from January 2012G and July 2012G;
- Business Analyst, RBC (Direct Investing), a joint stock company, financial services, Toronto, Canada, 2011G–2011G;
- Financial Analyst, Abdullah Al Othaim Markets Company, a joint stock company, retail, 2010G–2011G;
- Financial Analyst, Al-Othaim Holding Company (LLC), operating in investment sector, since 2010G until 2011G.

**5.1.4.5 Wassim Mohammad Assim Al Khatib, Director**

**Nationality:**

- Saudi.

**Age:**

- 34 years.

**Academic and Professional Qualifications:**

- Bachelor in Computer Engineering, Pennsylvania State University, Pennsylvania, United States of America, 2004G.

**Current Positions:**

- President - Banking investments, NCB Capital Cpmpany, Saudi joint stock company, specialised in financial services, since 2015G;
- Director, L'azurde Company for Jewelry , since 2015G;
- Director, HC Securities and Investment, Egypt, joint stock company, specialised in banking and financial services, since 2015G; and
- Partner and director, center for dental implant and teeth whitening, limited liability company, Saudi Arabia, medical sector, since 2010G.

**Past Professional Experience:**

- Executive - Banking investments, NCB Capital Company, Saudi joint stock company, specialised in financial services, from 2014G since 2015G;
- Vice President – Investment Banking, NCB Capital Company, a joint stock company, banking and financial services, 2012G–2013G;
- Administrative Assistant/Manager – Investment Banking, NCB Capital Company, a joint stock company, banking and financial services, 2008G–2012G;
- Senior Financial Analyst – Investment Banking, National Commercial Bank Capital, a joint stock company, banking and financial services, 2006G–2008G; and
- Analyst, Saudi Arabian Oil Company (Aramco), a stateowned company, oil and gas, 2005G–2006G.

#### 5.1.4.6 Hani Ibrahim Ahmed Obaid, Director

**Nationality:**

- Saudi.

**Age:**

- 35 years.

**Academic and Professional Qualifications:**

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

**Current Positions:**

- Director, L'azurde Company for Jewelry, since 2013G; and
- Corporate relationship manager, Investcorp Bank B.S.C., a Bahrain joint stock company, banking and financial services, since 2012G.

**Past Professional Experience:**

- Vice President – Wealth Management, Morgan Stanley Riyadh, a private company, banking and financial services, 2008G–2012G;
- Private Banking services Manager, Banque Saudi Fransi, a joint stock company, financial services, 2006G–2008G;
- Fund manager - assets management, Saudi Fransi Bank, Saudi joint stock company specialised in financial services, 2004G until 2006G;
- Investment sales and - consultative officer Saudi Fransi Bank, Saudi joint stock company specialised in financial services, 2003G until 2004G; and
- Business development manager, Lamsa Company, private company, operating in the retail sector, since 2002G until 2003G.

#### 5.1.4.7 Abdul Kareem Assad Abu Alnasr, Director

**Nationality:**

- Saudi.

**Age:**

- 55 years.

**Academic and Professional Qualifications:**

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

**Current Positions:**

- Director of Savola Group, a Saudi Joint Stock Company operating in manufacturing and marketing edible oil and vegetable ghee in Saudi Arabia since March 2013G;
- Director of Yanbu National Petrochemical Company (Yansab), a Saudi Joint Stock Company operating in manufacturing of petrochemical products, since March 2013G;
- Director of Abdul Latif Jameel United Finance Company, a Closed Joint Stock Company specialised in providing auto financing as per Finance Lease System, since April 2015G;
- Director of Saudia Aerospace Engineering Industries (SAEI), a Closed Joint Stock Company operating in engineering and manufacturing of planes since March 2014G;
- Director of Mohammed Abdulaziz Al-Rajhi & Sons Holding Company (MARS), a Closed Joint Stock Company operating in manufacturing industry, since March 2013G;
- Director of Kinan Real Estate Development Company, a Limited Liability Company operating in real-estate development March 2015G; and
- Director of SAFANAD LIMITED, Dubai, UAE, a Limited Liability Company, operating in investments, since May 2015G.

**Past Professional Experience:**

- Director of NCB, a Saudi Joint Stock Company specialised in financial services from 2007G until 2013G;

- Chairman of the Regional Advisory Council, MasterCard Company for MENA specialised in financial services, from 2007G until 2013G;
- Director of Union of Arab Banks, Lebanon, from 2006G until 2013G;
- Member of the Board of Trustees, Arab Academy for Banking and Financial Sciences, Jordan, from 2006G until 2013G;
- Chairman of AlAhli Takaful, a Joint Stock Company specialized in solidarity insurance, in the Kingdom from 2007G until 2010G;
- Member of Supreme Economic Council (SEC) Advisory Council for Economic Affairs, the Kingdom, from 2010G until 2012G;
- Vice Chairman of the Board of Türkiye Finans Katılım Bankası, a Private Company, specialised in banking and financial services, Turkey, from 2008G until 2013G;
- Member of the Board of Saudi Commission for Tourism and National Heritage, from 2008G until 2010G;
- Member of the Board of Saudi Arabia General Investment Authority (SAGIA), from 2008G until 2010G; and
- Member of the Advisory Committee of Abdul Latif Jameel Company L.L.C from 2013G until 2014G.

#### **5.1.4.8 Amin Mohamed Akef Al-Maghrabi, Director**

##### **Nationality:**

- Saudi.

##### **Age:**

- 42 years.

##### **Academic and Professional Qualifications:**

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

##### **Current Positions:**

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

##### **Past Professional Experience:**

- Regional General Manager of Magrabi Optical, a Limited Liability Company operating in eyewear categories from 2002G until 2006G;
- Marketing General Manager of Magrabi Optical, a Limited Liability Company operating in eyewear categories, Cairo, Egypt from 1999G until 2006G;
- Mergers and Acquisitions Analyst, JP Morgan, New York, USA, in financial services from 1998G until 1999G;
- Financial Analyst, Arak Financial Group operating in banking, Beirut, Lebanon, from 1997G until 1998G; and
- Senior Retail Broker, Flemings Investment Bank, specialised in investment, Cairo, Egypt, from 1995G until 1997G.

#### 5.1.4.9 Ayman Gamil, Chief Financial Officer and Secretary of the Board of Directors

**Nationality:**

- Egyptian.

**Age:**

- 45 years.

**Academic and Professional Qualifications:**

- Certified Treasury Professional, the Association for Financial Professionals, United States, 2002G;
- Certified Internal Auditor, the Institute of Internal Auditors, United States, 2001G;
- Chartered Certified Accountant, the Association of Chartered Certified Accountants, United Kingdom, 1998G; and
- Bachelor in Commerce, Cairo University, Cairo, Egypt, 1991G.

**Current Positions:**

- Secretary of the Board of Directors, L'azurde Company for Jewelry since 2015G; and
- Chief Financial Officer, L'azurde Company for Jewelry since 2014G.

**Past Professional Experience:**

- Group Chief Financial Officer, National Printing Company, a joint stock company, packaging and printing, 2012G–2014G;
- International Markets Controller (for Africa, Middle & Near East, CIS, Turkey & Pakistan), SC Johnson Company, a group of companies, fast moving consumer goods, 2010G–2012G;
- Regional financial manager (the Middle East and North Africa) SC Johnson, a group of companies, operating in retail industry, specialized in consumer goods, since 2006G and 2010G;
- Financial manager (Egypt) SC Johnson, a group of companies, operating in retail industry, specialised in consumer goods, since 2004G and 2006G;
- Finance Director, Fromageries Bel Egypt, a joint stock company, fast moving consumer goods, 2001G–2004G;
- Financial Controller, GlaxoSmithKline, a joint stock company, pharmaceutical, 1997G–2001G;
- Senior Accountant, Ernst & Young, a partnership, audit, 1994G–1997G; and
- Accounting Manager, CR&S Company, a partnership, information technology, 1992G–1994G.

## 5.2 Board of Directors Committees

The Board of Directors has established the Committees to optimise the management of the Company. Each Committee is required to have clear rules identifying its role, its powers and its responsibilities and minutes must be prepared for each meeting of each Committee (which are reviewed and approved by the Board of Directors). Moreover, as at the date of this Prospectus, in addition to the permanent Committees, the Board of Directors has formed an *ad hoc* IPO Advisory Committee advising the Board of Directors in connection with the Offering that will dissolve upon the completion of the Offering and an *ad hoc* Executive Committee advising the Board of Directors in connection with various matters in connection with the business of L'azurde Group.

The following is a summary of the structure, responsibilities and current members of each permanent Committee:

### 5.2.1 Nomination and Remuneration Committee

The Nomination and Remuneration Committee oversees the nomination of Directors to the Board of Directors and the remuneration policy for the Directors and the members of the Company's senior management. The duties and responsibilities of this committee include the following:

- assisting the Board of Directors to set criteria and identify suitable candidates for: (i) senior executive positions, such as the Chief Executive Officer; and (ii) membership of the Board of Directors and Committees;
- developing and maintaining an orientation and annual self-evaluation program for new Directors and assessing and making recommendations in respect of: (i) Director compensations; (ii) compliance with ethical and conflict of interest policies of existing Directors; and
- reviewing and proposing changes from time to time to the structure of the Board of Directors.

The Nomination and Remuneration Committee consists of at least three members, two of whom are Directors and one independent member with an adequate experience in human resources management. The members of the Nomination and Remuneration Committee are appointed by the Board of Directors for a period not exceeding the term of Board of Directors. The Nomination and Remuneration Committee meets at least two times each year and may also convene at any other time as determined by its chairman. Each member of the Nomination and Remuneration Committee shall be remunerated in the form and amount determined by the Board of Directors in accordance with the applicable laws, resolutions and instructions in the Kingdom as passed by the concerned authorities.

The Nomination and Remuneration Committee is comprised of the following members as at the date of this Prospectus:

**Table 5.2: Nomination and Remuneration Committee Members**

| Name                              | Role     |
|-----------------------------------|----------|
| Brian Dickie                      | Chairman |
| Rabih Khouri                      | Member   |
| Yasser Geissah                    | Member   |
| Abdullah Abdulaziz Saleh AlOthaim | Member   |
| Wassim Mohammad Assem Al Khatib   | Member   |

Source: The Company

## 5.2.2 Biographies of the Members of the Nomination and Remuneration Committee

The experience, qualifications and the current and other positions of the members of the Nomination and Remuneration Committee are set out below:

### 5.2.2.1 Brian Dickie

Please refer to Section 5.1.4.3 ("Brian Dickie, Director") for further details regarding experience, qualifications and the current and previous positions of Brian Dickie.

### 5.2.2.2 Rabih Khouri

**Nationality:**

- French.

**Age:**

- 43 years.

**Academic and Professional Qualifications:**

- MBA from Cambridge University, Cambridge, United Kingdom, 1999G.
- Masters in Engineering, Ecole Centrale Paris, France, 1995G; and

**Current Positions:**

- Member of Remuneration and Nomination Committee, L'azurde Company for Jewelry, a joint stock company, since 2015G;
- Head of Audit committee, L'azurde Company for Jewelry, a joint stock company, since 2015G;
- Board member for Theeb Rent a Car Company, a joint stock company, car rental business, since 2013G;
- Board member for Leejam For Sport, a joint stock company, operator of gym clubs under the Fitness Time brand, Kingdom of Saudi Arabia, since 2012G;
- Audit Committee chairman at Automak, a Kuwaiti listed company, operating in car leasing, Kuwait, since 2012G; and
- Investment team member, Investcorp Bank, Bahraini joint stock company, operating in finance sector, specialised in banking and financial services, since 2007G.

**Past Professional Experience:**

- Portfolio manager at Nord Est, diversified industrial fund, France, 2005G–2007G;
- Engagement Manager at McKinsey & Company, a partnership providing management consultancy services, 2000G– 2005G; and

- Senior Auditor at Arthur Andersen, a partnership providing audit and transaction services, 1995G–1997G, and 1999G–2000G.

### 5.2.2.3 Yasser Geissah

**Nationality:**

- Egyptian.

**Age:**

- 48 years.

**Academic and Professional Qualifications:**

- Masters of Science in Management from North Carolina State University, USA, 1992G; and
- Bachelors of Commerce from Ain Shams University in Cairo, Egypt, 1990G.

**Current Positions:**

- Members of the Nomination and Remuneration Committee, L'azurde Company for Jewelry , a joint stock company, since 2015G; and
- CEO, The National Investor, a private joint stock company from the investment sector, since 2013G.

**Past Professional Experience:**

- Managing Director and Head of Equity Capital Markets at National Bank of Abu Dhabi, a public joint stock company, financial and banking services, UAE, 2013G;
- Chief Executive Officer, Manazel Real Estate Pvt JSC, a private joint stock company from the real estate sector, UAE, 2012G;
- Chief Executive officer, CAPM Investment Pvt JSC., a private joint stock company from the investment sector, UAE, 2007G–2012G;
- Manager – Corporate Finance Division, Abu Dhabi Investment Company (ADIC), from the investment sector, UAE, 2004G–2006G;
- Vice President – Investment Banking Division, The National Investor, a private joint stock company from the investment sector, 1997G–2004G;
- Development and IPO Officer, Domestic Banking Division – National Bank of Abu Dhabi, a public joint stock company from the financial and banking services sector, 1995G–1997G;
- Customer Service officer, Mashreq Bank, listed company, operating in the financial sector, specialised in banking and financial services, 1994G until 1995G; and
- Financial consultant assistant, Old Mutual International, listed company, operating in the financial sector, specialised in banking and financial services, 1993G until 1994G.

### 5.2.2.4 Abdullah Abdulaziz Saleh Al Othaim

Please refer to, previously mentioned, Section 5.1.4.4 ("Abdullah Abdulaziz Saleh Al Othaim, Director") for further details regarding experience, qualifications and the current and previous positions of Abdullah Abdulaziz Saleh Al Othaim.

### 5.2.2.5 Wassim Mohammad Assem Al Khatib

Please refer to, previously mentioned, Section 5.1.4.5 ("Wassim Mohammad Assim Al Khatib, Director") for further details regarding experience, and the current and previous positions of Wassim Mohammad Assem Al Khatib.

## 5.2.3 Audit Committee

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

- making recommendations to the Board of Directors regarding the choice of internal and external auditors for the Company;
- determining the mandate of, supervising and reviewing the performance of the Company's external and internal auditors in compliance with applicable accounting policies and regulations and in particular addressing any irregularities or disagreements to ensure consistent financial reporting over time;
- reviewing and approving the Company's internal and external financial periodical reports and annual statements, and the disclosures therein and ensuring the independence of such reports and statements;



- reviewing and managing the Company's internal audit and risk management procedures and the code of business ethics and conduct;
- identifying, limiting and managing key financial risks for the Company and to respond to incidents or complaints (whether from regulators, Directors, employees, shareholders or whistle-blowers) in an appropriate manner; and
- reviewing and approving (or rejecting) related party transactions entered into by the Company.

The Audit Committee consists of at least three members, including an independent member and a specialist in financial and accounting matters, none of whom are executive Directors. The members of the Audit Committee are appointed by the Board of Directors for a period coinciding with each member's term as Director. The Audit Committee meets at least four times each year and may also convene at any other time as required. Each member of Audit Committee shall be remunerated in the form and amount determined by the Board of Directors in accordance with the applicable laws, resolutions and instructions in the Kingdom as passed by the concerned authorities.

The Audit Committee is comprised of the following members as at the date of this Prospectus:

**Table 5.3: Audit Committee Members**

| Name                            | Role     |
|---------------------------------|----------|
| Wassim Mohammad Assem Al Khatib | Chairman |
| Brian Dickie                    | Member   |
| Yasser Al Sharif                | Member   |

Source: The Company

## 5.2.4 Biographies of the Members of the Audit Committee

The experience, qualifications and the current and other positions of the members of the Audit Committee are set out below:

### 5.2.4.1 Brian Dickie

Please refer to Section 5.1.4.3 ("Brian Dickie, Director") for further details regarding experience, qualifications and the current and previous positions.

### 5.2.4.2 Wassim Mohammad Assem Al Khatib

Please refer to, previously mentioned, Section 5.1.4.5 ("Wassim Mohammad Assim Al Khatib, Director") for further details regarding experience, and the current and previous positions of Wassim Mohammad Assem Al Khatib

### 5.2.4.3 Yasser Al Sharif

#### Nationality:

- Saudi.

#### Age:

- 43 years.

#### Academic and Professional Qualifications:

- Master of Science in Risk Management, New York University Leonard N. Stern School of Business, USA, 2010G; and
- BSc, Finance, King Abdulaziz University, Jeddah, Kingdom of Saudi Arabia, 1995G.

#### Current Positions:

- Board member at The Saudi Transport and Investment Co., a Saudi listed Company, transportation sector, since 2015G.
- Audit Committee member, L'azurde Company for Jewelry , a joint stock company, since 2014G.

#### Past Professional Experience:

- CEO and Board Member, Manafea Holding Company, investment holding company, 2011G–2014G;
- Chief Risk Officer, Saad Group, closed joint stock company, investment company, 2008G–2010G;

- Chief Risk Officer, Jadwa Investment, closed joint stock company, investment company, Kingdom of Saudi Arabia, 2008G-2008G;
- Risk Department manager, Saad Group, closed joint stock company, investment company, 2006G until 2008G;
- Market risk department manager, Arab National Bank, listed company, Saudi joint stock company specialised in financial services, since 2003G until 2006G;
- Treasury and control risk manager, Saudi Hollandi Bank, Saudi joint stock company specialised in financial services, since 2003G until 2003G;
- Market risk department manager, Samba Financial Group, Saudi joint stock company specialised in financial services, since 2001G until 2003G; and
- Treasury account auditor, Capital markets Fund manager, and market risk department manager, The National Commercial Bank, Saudi joint stock company specialised in financial services, since 1995G and 2001G.

## 5.3 Senior Management

### 5.3.1 Overview of Senior Management

The senior management of the Company is comprised of qualified and experienced members with necessary knowledge and expertise to run the Company's business in line with the objectives and directives of the Board of Directors and the Shareholders. The Company has been successful in retaining its senior management team, developing qualified employees and promoting them to senior positions in the Company.

The following chart sets out the Senior Executives as at the date of this Prospectus:

**Exhibit 6: Senior Executives Chart**



Source: The Company

1- The Executive General Manager – Egypt is an employee of L'azurde Egypt.

**Table 5.4: Details of Senior Executives**

| Name                  | Position  | Date of Appointment                       | Nationality | Age (Years) | No. of Shares held Pre-Offering | No. of Shares held Post-Offering |
|-----------------------|---|---|-------------|-------------|---------------------------------|----------------------------------|
| Selim Chidiac         | Chief Executive Officer                               | 5/4/2010G (corresponding to 20/6/1431H)   | Swiss       | 45          | -                               | -                                |
| Ayman Gamil           | Chief Financial Officer                               | 22/9/2014G (corresponding to 27/11/1435H) | Egyptian    | 45          | -                               | -                                |
| Mohammed Ayman Haffar | Executive General Manager – Kingdom and International | 22/2/1994G (corresponding to 11/9/1414H)  | Syrian      | 46          | -                               | -                                |
| Ihab Ibrahim          | Executive General Manager – Egypt                     | 1/5/2005G (corresponding to 22/3/1426H)   | Egyptian    | 47          | -                               | -                                |
| Fahed Ghanim          | General Manager – Retail                              | 8/1/2014G (corresponding to 6/3/1435H)    | Jordanian   | 39          | -                               | -                                |
| Amir Zweil            | Chief Marketing Officer                               | 6/4/2014G (corresponding to 6/6/1435H)    | Egyptian    | 40          | -                               | -                                |

| Name           | Position                | Date of Appointment                       | Nationality | Age (Years) | No. of Shares held Pre-Offering | No. of Shares held Post-Offering |
|----------------|-------------------------|---|-------------|-------------|---------------------------------|----------------------------------|
| Abdallah Obeid | Administration Director | 1/9/1995G<br>(corresponding to 5/4/1416H) | Saudi       | 45          | -                               | -                                |

Source: The Company

### 5.3.2 Biographies of Senior Executives

The experience, qualifications and the current and other positions of each Senior Executive are set out below:

#### 5.3.2.1 Selim Chidiac, Chief Executive Officer

**Nationality:**

- Swiss

**Age:**

- 45 years

**Academic and Professional Qualifications:**

- Engineering Degree, Chimie Physique Electronique, Lyon, France, 1995G;

**Current Position:**

- Chief Executive Officer, L'azurde Company for Jewelry since 2010G.

**Past Professional Experience:**

- Chief Executive Officer, Red Bull North America, Inc., fast moving consumer goods, 2007G until 2010G;
- Chief Executive Officer and Regional Head (Asia, Pacific, Middle East and Africa), Red Bull North America, Inc., fast moving consumer goods, 2006G until 2007G;
- Regional President (Asia, the Pacific Ocean, Middle East and Africa), Red Bull FZE, a company operating in the retail industry and specialised in consumer goods, 2004G until 2005G;
- Manager of (Middle East, North Africa and Greece region), Red Bull GMBH, a company operating in the retail industry and specialised in consumer goods, 1999G until 2002G;
- Marketing Manager, Procter & Gamble IG, General Partnership, a company operating in the retail industry and specialised in consumer goods, 1997G until 1999G; and
- Brand Manager, Procter & Gamble IG, General Partnership, a company operating in the retail industry and specialised in consumer goods, 1995G until 1997G.

#### 5.3.2.2 Ayman Gamil, Chief Financial Officer and Secretary of the Board of Directors

Please see Section 5.1.4.9 ("Ayman Gamil, Chief Financial Officer and Secretary of the Board of Directors") above for further details regarding experience, qualifications and the current and other positions of Mr Ayman Gamil.

### **5.3.2.3 Mohammed Ayman Haffar, Executive General Manager – Kingdom and International**

**Nationality:**

- Syrian.

**Age:**

- 46 years.

**Academic and Professional Qualifications:**

- Executive Program, Harvard university, Massachusetts, United States, 2007G;
- Strategic Marketing diploma at Toledo University, Ohio, USA, 1998G
- Bachelor in Business Administration, Aleppo University, Aleppo, Syria, 1991G.

**Current Position:**

- Executive General Manager, L'azurde Company for Jewelry since January 2006G.

**Past Professional Experience:**

- Vice President - Marketing & Sales, L'azurde Company for Jewelry, 2005G;
- Marketing and Sales Director, L'azurde Company for Jewelry , 2002G–2004G;
- Senior Marketing Manager, L'azurde Company for Jewelry, 1995G–2002G;
- Senior Sales Manager, L'azurde Company for Jewelry , 1994G–1995G; and
- Sales department manager, Matajer Al Arabia, individual institution, fashion industry, since 1990G until 1993G.

### **5.3.2.4 Fahed Ghanim, General Manager – Retail**

**Nationality:**

- Jordanian.

**Age:**

- 39 years.

**Academic and Professional Qualifications:**

- Master of Business Administration, ESCP Europe, Paris, France, 2002G; and
- Bachelor Degree in economics, Jordan University, Jordan, 1997G.

**Current Position:**

- General Manager – Retail, L'azurde Company for Jewelry since 2014G.

**Past Professional Experience:**

- Business Development Director, Ghobash Trading & Investment Group, a limited liability company, retail, 2010G–2013G;
- General Manager – Marketing & Retail, Bloom Properties, a joint stock company, real estate, 2008G–2010G;
- General Manager – International Sales & Marketing, Vantage Real Estate Development, a limited liability company, real estate, 2007G–2008G;
- General Manager – Jewellery & Watches, Al Tayer Group, a limited liability company, jewellery, 2003G–2007G; and
- Business development manager, SBIG holding, since 1997G until 2001G.

#### 5.3.2.5 Amir Zweil, Chief Marketing Officer

**Nationality:**

- Egyptian.

**Age:**

- 40 years.

**Academic and Professional Qualifications:**

- Bachelor in Business Administration, Arab Academy of Science & Technology, Cairo, Egypt, 1995G.

**Current Position:**

- Chief Marketing Officer, L'azurde Company for Jewelry since 2014G.

**Past Professional Experience:**

- Marketing Director, Bupa – Health Insurance, a limited liability company, insurance, 2011G–2014G;
- Marketing Director, National Food Products Company, a limited liability company, fast moving consumer goods, 2008G–2011G; and
- Regional Category Director – AMET Oral Category, Unilever, a joint stock company, fast moving consumer goods, 1996G–2008G.

#### 5.3.2.6 Abdallah Obeid, Administration Director

**Nationality:**

- Saudi.

**Age:**

- 45 years.

**Academic and Professional Qualifications:**

- Business Administration Diploma, Al Khaleej Institute, Riyadh, Saudi Arabia, 1995G.

**Current Position:**

- Administration Director, L'azurde Company for Jewelry since 2006G;

**Past Professional Experience:**

- Public Relations Manager, L'azurde Company for Jewelry , 1995G–2000G; and
- Government Relations Manager, Saudi Telecom Company (STC), a joint stock company, telecommunication, 1990G–1994G.

#### 5.3.2.7 Ihab Ibrahim, Executive General Manager – Egypt

**Nationality:**

- Egyptian.

**Age:**

- 47 years.

**Academic and Professional Qualifications:**

- Bachelor in Commerce – Business Administration, Helwan University, Cairo, Egypt, 1990G;
- Computer Science Diploma, American University in Cairo, Cairo, Egypt, 1990G; and
- Chartered Institute of Marketing Diploma in Marketing, American University in Cairo, Cairo, Egypt, 2007G.

**Current Position:**

- Executive General Manager – Egypt, L'azurde Company for Jewelry since 2011G.

**Past Professional Experience:**

- Commercial Manager, OroEgypt Company for Manufacturing Precious Metals, a joint stock company working in the business of manufacturing, forging and selling of jewelries and Gold works, 2009G–2011G;
- Marketing and Sales Manager, OroEgypt Company for Manufacturing Precious Metals, a joint

stock company working in the business of manufacturing, forging and selling of jewelries and Gold works, 2003G–2009G; and

- Deputy General Manager, Senior Sales Manager and Regional manager, Arab Trade & Distribution Co. S. A. E, 1992G–2003G.

### 5.3.2.8 Employment Contracts with Senior Executives

The Company concluded employment contracts with all members of the Company's senior management in which their fees and remuneration are identified depending on their qualifications and experience. These contracts include a number of benefits such as providing transportation or granting a monthly allowance for transportation or housing, or both. These contracts are renewable and subject to the Saudi Labour Law.

Mr Selim Chidiac, the Chief Executive Officer, joined the Company in 2010G. He has a written employment contract with the Company, currently renewed for a period of five years commencing from 1 March 2015G (corresponding to 10 Jumaada al-awal 1436H), automatically renewable for subsequent terms of similar period. The duties and responsibilities of the Chief Executive Officer can be summarised as follow:

- managing the day-to-day affairs and business of the Company;
- proposing and developing the Company's strategy and overall commercial objectives, in close consultation with the Board of Directors;
- implementing the decisions of the Board of Directors and the Committees;
- providing input to the Chairman on the Board of Directors meetings' agenda;
- ensuring the provision of accurate and clear information to the Board of Directors in a timely manner; and
- ensuring that all material matters affecting the Company are brought to the attention of the Board of Directors.

Mr Ayman Gamil, the Chief Financial Officer, joined the Company in 2014G. He has a written employment contract with the Company, currently renewed for a period of five years commencing 1 October 2015G (corresponding to 17 Thu Al-Hijjah 1436H), automatically renewable for subsequent terms of similar period. The duties and responsibilities of the Chief Financial Officer can be summarised as follows:

- assisting in the formulation of L'azurde Group's strategies and objectives and lead L'azurde Group's financial planning process;
- leading the financial reporting process and strengthening the Company's internal control systems;
- working to optimise L'azurde Group's cash flow, liquidity, and gold and working capital facilities; and
- reviewing and assessing L'azurde Group's information technology resources, functions and security.

## 5.4 Remuneration of Directors and Senior Executives

Pursuant to the Company's By-Laws, the remuneration of Directors shall be determined in accordance with the official decisions and instructions issued by the MOCI in this respect and within the limit of the provisions of Companies' Regulations, any other complementary laws thereto and the Company's By-Laws, in addition to attendance and transportation allowances to be determined by the Board of Directors in accordance with the applicable laws, resolutions and instructions in the Kingdom as passed by the concerned authorities.

According to the Ministerial Resolution No. 1071 dated 2/11/1412H (corresponding to 5/5/1992G) issued by HE the Minister of Commerce and Industry, where the remuneration is distributed as a percentage of profits, the maximum annual remuneration for each Director at the Company shall be in SAR 200,000, in addition to SAR 3,000 for every Board meeting.

Certain executive managers and employees were eligible to participate in an incentive plan (the "Plan") granted by L'azurde Holding and Gulf Fifth Gemstone Saudi LLC. There are a total of fifteen participants (the "Participants"), including the CEO, CFO, Executive GM of KSA, Executive GM of Egypt, GM of Retail, Administrative Director, Head of Production KSA, Head of Operations in Egypt and others. The Plan acts an incentive from L'azurde Holding Company and Gulf Fifth Gemstone Saudi LLC to maximise financial and operational performance of the Company both before and after the Offering, as well as to act as a retention plan for the Participants.

The Plan is an equity linked management incentive plan, pursuant to which each participant acquires a certain number of units, consisting of a right to be paid a redemption amount on the occurrence of certain liquidity or termination events, determined by reference to the number of units acquired and their

valuation at the time of their redemption. The units are not Shares or securities issued by the Company and do not carry any rights or entitlements (including, without limitation, voting or economic rights or entitlements) otherwise available to the holders of the Shares or securities issued by the Company.

The number of units given to each Participant is based on years of service, grade, title and salary. In accordance with the Plan, the Participants are entitled to invest in units based on a value determined as at the beginning of January 2015G. The price of each unit was determined based on market based valuation methodologies for the Company and incorporates a discount to account for the fact the units do not carry any rights or entitlements (including, without limitation, voting or economic rights or entitlements) otherwise available to the holders of the Shares or securities issued by the Company. The investment in the units by the Participants is funded by a full recourse loan granted by L'azurde Holding to the Participants.

The Participants will redeem only a portion of their units upon the successful completion of the Offering and the remainder of their units will be gradually redeemed over time after the Offering until 31 December 2018G. The payment obligations of the Plan are fully funded by L'azurde Holding and Gulf Fifth Gemstone Saudi LLC, not the Company. Therefore, the plan does not create any obligation or liability on the Company. The Plan is fully compliant with the Saudi Arabian laws and regulations

The total remuneration paid by the Company or any of its subsidiaries to the Directors, the members of the Committees and the Company's top five Senior Executives (comprising five individuals, including the Chief Executive Officer and the Chief Financial Officer) for the financial years ended 31 December 2013G, 2014G and 2015G are set out in the table below.

**Table 5.5: Director and Top Five Senior Executives Remuneration**

| (SAR million)                                   | 2013G | 2014G | 2015G |
|---|-------|-------|-------|
| Directors <sup>1</sup>                          | -     | -     | -     |
| Members of the Committees <sup>2</sup>          | -     | -     | -     |
| Senior Executives (five employees) <sup>3</sup> | 9,12  | 9,42  | 9,87  |
| Total   | 9,12  | 9,42  | 9,87  |

Source: The Company

1- The Directors did not receive any type of remuneration during the financial years ended 31 December 2013G, 2014G and 2015G.

2- The members of the Committees did not receive any type of remuneration during the financial years ended 31 December 2013G, 2014G and 2015G.

3- In addition to the above mentioned amounts, certain Senior Executives have also management incentive plan agreements with L'azurde Holding Company and Gulf Fifth Gemstone Saudi LLC, without any liability or cost incurred by the Company.

## 5.5 Corporate Governance

The Company's policy is to adopt high standards of corporate governance. The Company undertakes to comply with the Corporate Governance Regulations issued by the CMA as it considers compliance with the Corporate Governance Regulations important to its success. The Corporate Governance Regulations require the implementation of a clear policy on transparency and disclosure that will help to ensure that the Board of Directors acts in the best interests of the Shareholders and presents a clear and fair view of the financial condition of the Company and the results of its operations.

The Company must comply with paragraphs (i) and (j) of Article 5, Article 9, paragraphs (b), (c) and (d) of Article 10, paragraphs (c), (e) and (g) of Article 12, Article 14 and Article 15 of the Corporate Governance Regulations. As at the date of this Prospectus, the Company complies with the following articles under the Corporate Governance Regulation:

- (a) paragraph (i) of Article 5, given that Shareholders are enabled to peruse the minutes of General Assembly meetings;
- (b) paragraphs (c) and (d) of Article 10, given that the Company issues a corporate governance manual setting out, among other things, policies and standards in connection with the membership of the Board of Directors;
- (c) paragraphs (c) and (e) of Article 12, given that all Directors are non-executive and that three of whom are independent Directors;
- (d) Article 14, given that the Board of Directors has established an Audit Committee comprised of five members, none of whom is an executive Director; and
- (e) Article 15, given that the Board of Directors has established a Nomination and Remuneration Committee.



The Company's corporate governance manual includes, among others, provisions in relation to the following:

- (a) Board of Directors policies and procedures;
- (b) Board of Directors conflict of interest policy;
- (c) Board of Directors committees principals and policies;
- (d) Shareholders' rights and protection of minority Shareholders;
- (e) monitoring, assessment, internal and external audit and internal control policies;
- (f) General Assembly policies;
- (g) dividend distribution policy;
- (h) Shareholders' communications policies;
- (i) disclosure and transparency policies;
- (j) code of conduct for employees;
- (k) Audit Committee charter; and
- (l) Nomination and Remuneration Committee charter.

The Company is currently not complying with Articles 5(j), 9, 10(b) and 12(g) of the Corporate Governance Regulations, given that the Company is not, as at the date of this Prospectus, a listed company. The Company undertakes to comply with these articles as soon as the CMA issues approval for the listing of the Shares.

The Company confirms that it complies with Articles 69, 70 and 71 of the Companies' Regulations, and also complies with Article 18 of the Corporate Governance Regulations. Article 18(a) of the Corporate Governance Regulations provides that *"a board member shall not, without a prior authorisation from the general assembly, to be renewed each year, have any interest (whether directly or indirectly) in the company's business and contracts. The activities to be performed through general bidding shall constitute an exception where a board member is the best bidder. A board member shall notify the board of directors of any personal interest he/she may have in the business and contracts that are completed for the company's account. Such notification shall be entered in the minutes of the meeting. A board member who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard neither in the general assembly nor in the board of directors. The chairman of the board of directors shall notify the general assembly, when convened, of the activities and contracts in respect of which a board member may have a personal interest and shall attach to such notification a special report prepared by the company's auditors"*. Article 69 of the Companies' Regulations sets out the same obligations as Article 18(a) of the Corporate Governance Regulations. Article 18(b) of the Corporate Governance Regulations stipulates that *"a board member shall not, without a prior authorisation of the General Assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the company, or trade in any branch of the activities carried out by the company"* and Article 70 of the Companies' Regulations sets out the same obligations. Article 18(c) of the Corporate Governance Regulations stipulates that a *"company shall not grant cash loan whatsoever to its board members or render any guarantee in respect of any loan entered into by a board member with third parties, excluding banks and other fiduciary companies"* and Article 71 of the Companies' Regulations sets out the same obligations.

The Company's internal control systems have been adopted in all of its departments. The Company has two corporate governance Committees (the Nomination and Remuneration Committee and the Audit Committee), which are responsible for reviewing the Company's operations within their particular areas of expertise and presenting their findings and suggestions to the Board of Directors. Moreover, the Board of Directors has formed *ad hoc* committee advising the Board of Directors on various matters (for further details, please see Section 5.2 ("Board of Directors Committees")). Furthermore, the Company undertakes to comply with all decisions and instructions issued by the CMA in relation to the provisions of the Corporate Governance Regulations.

The Company's Board of Directors comprises of nine Directors, including three independent Directors in accordance with the provisions of the Corporate Governance Regulations. The Board of Directors ensures, among other things, that:

- (a) all the Committees will have clear terms of reference that outline the roles and responsibilities of each Committee; and
- (b) minutes of all meetings are prepared, reviewed and approved by the Board of Directors.

In accordance with Article 6(b) of the Corporate Governance Regulations, the Shareholders adopted the accumulative voting method in relation to the appointment of Directors at the Extraordinary General Assembly meeting held on 2/1/1437H (corresponding to 15/10/2015G). This method of voting gives each

Shareholder voting rights equivalent to the number of Shares he/she holds. Each Shareholder has the right to use all of his/her voting rights for one nominee or to divide their voting rights between his/her selected nominees without any duplication of these votes. This method increases the chances for minority Shareholders to appoint their representatives to the Board of Directors through the right to accumulate votes for one nominee.

## 5.6 Conflicts of Interest

Neither the Company's By-Laws nor any of the Company's internal regulations and policies grant a Director the power to vote on any contract or offer in which he has a direct or indirect interest. This is in compliance with Article 69 of the Companies' Regulations, as discussed in the immediately preceding section above. The Directors confirm that:

- (a) they will comply with Articles 69 and 70 of the Companies' Regulations and Article 18 of the Corporate Governance Regulations;
- (b) they will not vote on General Assembly resolutions that relate to any Related Party transaction or contract in which the Directors have a direct or indirect interest; and
- (c) they will not compete with the Company's business in accordance with Article 70 of the Companies' Regulations.

As at the date of this Prospectus, the Directors do not have a conflict of interest in relation to contracts and/or transactions entered into with the Company and are not engaged in any activities similar to, or competing with, the Company's activities.

## 5.7 Employees

L'azurde Group adopted an employment policy aimed at building and enhancing relations between L'azurde Group and its employees. This policy covers all aspects of recruitment, work schedules, healthcare, social insurance benefits, salaries and other allowances including accommodation and transportation allowances and rewards.

### 5.7.1 Number of Employees

As at 31 December 2015G, the Company and its Saudi Subsidiaries employed 1,281 employees (16.03% of whom were Saudi nationals) and L'azurde Group employed in total 2,777 employees. The following tables set out the distribution of employees by business segment and Subsidiary and the Saudisation percentage.

The following table shows the number of employees of L'azurde Group by business segment as at 31 December 2013G, 2014G and 2015G:

**Table 5.6: Number of Employees of L'azurde Group by Business Segment as at 31 December 2013G, 2014G and 2015G:**

|                              | 31 December 2013G |           |       | 31 December 2014G |           |       | 31 December 2015G |           |       |
|------------------------------|-------------------|-----------|-------|-------------------|-----------|-------|-------------------|-----------|-------|
|                              | Saudi             | Non-Saudi | Total | Saudi             | Non-Saudi | Total | Saudi             | Non-Saudi | Total |
| Business Segment             |                   |           |       |                   |           |       |                   |           |       |
| Manufacturing and Production | 197               | 1,814     | 2,011 | 182               | 1,966     | 2,148 | 85                | 2,098     | 2,183 |
| Wholesale                    | 16                | 128       | 144   | 18                | 146       | 164   | 18                | 158       | 176   |
| Retail                       | 17                | 45        | 62    | 17                | 49        | 66    | 16                | 58        | 74    |
| Administration               | -                 | -         | -     | -                 | -         | -     | 44                | 300       | 344   |
| Total                        | 230               | 1,987     | 2,217 | 217               | 2,161     | 2,378 | 163               | 2,614     | 2,777 |

Source: The Company

The table below shows the number of employees of the Company and its Saudi subsidiaries and the achieved Saudisation percentages as at 31 December 2013G, 2014G and 2015G:

**Table 5.7: Number of employees of the Company and its Saudi Subsidiaries and the achieved Saudisation percentages as at 31 December 2013G, 2014G and 2015G:**

| Company                        | 31 December 2013G |           |       |                                 | 31 December 2014G |           |       |                                 | 31 December 2015G |           |       |                                 |
|--------------------------------|-------------------|-----------|-------|---------------------------------|-------------------|-----------|-------|---------------------------------|-------------------|-----------|-------|---------------------------------|
|                                | Saudi             | Non-Saudi | Total | Saudisation percentage/Category | Saudi             | Non-Saudi | Total | Saudisation percentage/Category | Saudi             | Non-Saudi | Total | Saudisation percentage/Category |
| L'azurde Company for Jewelry   | 230               | 801       | 1,031 | 22.30% (Low Green)              | 217               | 770       | 987   | 21.98% (Low Green)              | 163               | 1,118     | 1,281 | 16.03% (Medium Green)           |
| Almu-jawharat Almasiah Company | -                 | -         | -     | -                               | -                 | -         | -     | -                               | -                 | -         | -     | -                               |
| Kenaz Company                  | -                 | -         | -     | -                               | -                 | -         | -     | -                               | -                 | -         | -     | -                               |
| Total                          | 230               | 801       | 1,031 | 21.84%                          | 217               | 770       | 987   | 21.44%                          | 163               | 1,118     | 1,281 | 16.03%                          |

Source: The Company

The following table shows the number of employees of the foreign subsidiaries as at 31 December 2013G, 2014G and 2015G:

**Table 5.8: Number of Employees of the Foreign Subsidiaries as at 31 December 2013G, 2014G and 2015G:**

| Subsidiary   | 31 December 2013G |           |       | 31 December 2014G |           |       | 31 December 2015G |           |       |
|--|-------------------|-----------|-------|-------------------|-----------|-------|-------------------|-----------|-------|
|  | Saudi             | Non-Saudi | Total | Saudi             | Non-Saudi | Total | Saudi             | Non-Saudi | Total |
| L'azurde Company for Jewellery (LLC) <sup>1</sup>  | -                 | 18        | 18    | -                 | 19        | 19    | -                 | 18        | 18    |
| L'azurde for Jewellery - LLC <sup>2</sup>          | -                 | 4         | 4     | -                 | 6         | 6     | -                 | 3         | 3     |
| L'azurde Egypt for Jewellery (LLC)                 | -                 | 1         | 1     | -                 | 150       | 150   | -                 | 1,257     | 1,257 |
| L'azurde for Jewellery <sup>3</sup>                | -                 |           |       | -                 |           |       | -                 | 2         | 2     |
| OroEgypt Company for Manufacturing Precious Metals | -                 | 1,163     | 1,163 | -                 | 1,216     | 1,216 | -                 | 216       | 216   |
| Total  | -                 | 1,186     | 1,186 | -                 | 1,391     | 1,391 | -                 | 1,496     | 1,496 |

Source: The Company

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

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

3- L'azurde for Jewellery is a limited liability company incorporated in the State of Qatar.

The number of employees employed by L'azurde Group increased by approximately 7% from 2,217 employees as on 31 December 2013G to 2,378 employees as on 31 December 2014G, and by a further approximately 17% from 2,378 employees as on 31 December 2014G to 2,777 employees as on 31 December 2015G. As noted in table above, number of employees for OroEgypt decreased from 1,216 in 2014G to 216 in 2015G due to lower volume of activity and expansion of L'azurde Egypt which increased number of employees from 150 in 2014G to 1,257 in 2015G which is in line with L'azurde Group's focus on increasing its investments and activity in L'azurde Egypt. It is worth noting, that there were no transfer of employees between the two companies, as most employees were hired with new contracts by L'azurde Egypt after terminating their contracts with OroEgypt.

## 5.7.2 Saudisation

The "Nitaqat" Saudisation programme was approved pursuant to the Minister of Labour Resolution No. 4040 issued on 12/10/1432H (corresponding to 10/9/2011G), based on Council of Ministers Resolution No. 50 issued on 21/5/1415H (corresponding to 27/10/1994G), which was applied as at 12/10/1432H (corresponding to 10/9/2011G). The Ministry of Labour established the "Nitaqat" programme to provide establishments with incentives to hire Saudi nationals. The program assesses an establishment's performance based on specific ranges, which are platinum, green (which is further divided into low, average and high ranges), yellow and red. Establishments that are classified within the platinum and green categories are deemed to be compliant with the Saudisation requirements and receive certain specified benefits, such as the ability to obtain and renew work visas for foreign employees or the ability

to change the profession of foreign employees (except for professions reserved exclusively for Saudi nationals). Establishments that are classified as yellow or red (depending on the extent to which they are non-compliant) are deemed to be non-compliant with the Saudisation requirements and are subject to certain punitive measures, such as a limited ability to renew work visas for foreign employees or complete inability to obtain or renew work visas for foreign employees.

For the Nitaqat classification of the Company and its Saudi Subsidiaries, please see Table 5.7 ("Number of employees of the Company and its Saudi Subsidiaries and the achieved Saudization percentages as at 31 December 2013G 2014G and 2015G") above.

## 6. Management's Discussion and Analysis of Financial Position and Results of Operations

### 6.1 Introduction

The following Management Discussion and Analysis of L'azurde Group presents an analytical review of the operational performance and financial position during the years ended 31 December 2013G, 2014G and 2015G. This section should be read in conjunction with the consolidated audited financial statements, which have been audited by L'azurde Group's Auditors (Ernst & Young & Co. (Public Accountants)) in addition to the notes thereto.

Ernst & Young Co. do not themselves (forming part of the engagement team serving the L'azurde Group), their affiliates, or any of their employees' relatives have any shareholding or interest of any kind in L'azurde Group which would impair their independence. As at the date of this Prospectus, Ernst & Young & Co. have furnished and not withdrawn their written consent to the reference in this Prospectus of their role as auditors of L'azurde Group for the financial years ended 31 December 2013G, 2014G and 2015G.

This section may contain forward-looking statements for L'azurde Group, based on its management plans and prospects, which may involve prospective risks and uncertainties. Actual performance of L'azurde Group could differ materially from those contemplated by these forward-looking statements, as a result of various factors, including future factors and conditions discussed below and elsewhere in this Prospectus, particularly those set out in the Risk Factors section.

Please note that the figures in this section have been rounded up to the nearest thousand. As such, if summed, the numbers may differ to those which are stated in the tables. Subsequently, all annual percentages, margins, expenses and CAGRs are based on the rounded figures.

### 6.2 Directors' Declarations for Financial Statements

The Directors declare, to the best of their knowledge and belief as at the date of this Prospectus, that:

The financial information presented in this Prospectus is extracted without material change from L'azurde Group's consolidated audited financial statements and notes of 2013G, 2014G and 2015G.

- There has been no material adverse change in the Company's financial or business position or any of its subsidiaries during the three years immediately preceding the date of submission and acceptance of listing, in addition to the period covered by the chartered accountant's report and until the date of this Prospectus. Furthermore, there are no other facts, of which the omission of such facts would make any statement herein misleading.
- The audited financial statements are prepared on a consolidated basis, and have been prepared in accordance with the accounting standards issued by the Saudi Organization of Certified Public Accountants (SOCPA) in Saudi Arabia.
- The Company and its Subsidiaries have sufficient working capital for 12 months immediately following the date of this Prospectus.
- There is no intention to make any fundamental change in the nature of L'azurde Group's activity, and that operations have not stopped in a way that could affect or has affected its financial position significantly during the past twelve months.
- The Directors declare that no commissions, discounts, brokerage fees or non-cash compensations were given by L'azurde Group in the three years immediately preceding the date of the submission of its listing application, or acceptance of such listing, in relation to the issuance or sale of any securities. The Directors confirm that the Company's capital is not under option.
- None of the Company's shares and its Subsidiaries's shares are under option except as disclosed in section 12.5.2.2 ("Partners' Agreements in Relation to L'azurde Qatar"). L'azurde Group does not hold any contractually based securities or other assets whose value may be subject to fluctuations or be difficult to ascertain with certainty, significantly affecting the assessment of the Company's financial position.
- L'azurde Group does not hold any debt instruments issued and outstanding or authorised or otherwise created but unissued.
- L'azurde Group does not hold any liabilities under acceptances, acceptance credits or any hire purchase commitments. L'azurde Group does not hold any debt or loans secured by mortgages, except for what is presented in the financing agreements section of this Prospectus.
- L'azurde Group does not have any mortgages, rights or charges on its properties as at the date of

this Prospectus. As well as there are no potential obligations or other guarantees.

### **Consolidated Financial Statement Principles**

Consolidated Financial Statements include assets, liabilities and results of the Company's and its Subsidiaries' operations in which the Company, whether directly or indirectly, has a long-term investment exceeding 50% of the capital entitled to vote and/or over which it has practical control. The subsidiary shall be included in the Consolidated Financial Statements as at the date of being under the control of the Company and until ceasing such control.

The financial statements of the Subsidiaries have been prepared for the same period by using auditing policies similar to that are adopted by the Company.

Minority interests represent a stake in profit or loss and net assets not owned by L'azurde Group. They shall be, however, included as an independent item in the consolidated financial statement and within the shareholders' equity in the Consolidated Statement of Financial Position independently of shareholders' equity, if being material.

All significant intercompany transactions between the Group's companies have been eliminated on consolidation of financial statements.

## **6.3 Significant Accounting Policies**

The consolidated financial statements were prepared in accordance with the accounting standards accepted in the Kingdom issued by the Saudi Organization for Certified Public Accountants (SOCPA) and have been audited by the Auditor (Ernst & Young & Co. (Public Accountants)). The most important accounting policies set in place by L'azurde Group are set out below:

### **Accounting Conventions**

Consolidated financial statements are prepared in accordance with the Adjusted Historical Cost Principle to include a measurement of assets and liabilities denominated in gold at the market price.

### **Use of Estimates**

According to generally accepted accounting standards, preparation of financial statements requires the use of estimates and assumptions that may affect the reported balances of assets and liabilities; and the disclosure of potential balances of assets and liabilities as at the date of the financial statements, and the amounts of revenues and expenses recorded during the reporting period of the financial statements. Actual results may differ from such estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents includes bank balances, and cash in hand, investments, convertible into known cash amounts, whose original maturity is three months or less as at the date of purchase.

### **Debtors**

Accounts receivable are recorded at the original billed amounts or at the weight of gold less the allowance for bad debts. Upon collection, the accounts receivable are paid in cash or gold. An estimation of the doubtful debts shall be carried out if the amounts could not be collected in full. Bad debts shall be written-off when incurred.

### **Property, Plant and Equipment**

PP&E are stated at the cost less accumulated depreciation and any impairment in value. No depreciation shall be calculated on owned lands. The cost less residual value of other property land and equipment is depreciated on a straight line basis over the expected useful lives.

Leased buildings are amortised on a straight line basis over the estimated useful lives or the lease period, whichever is shorter.

Repairs and Maintenance shall be charged to income. Improvements materially increasing the value or useful life of related assets are capitalised.

### **Intangible Assets**

Intangible assets with specified useful lives or the useful lives of which can be specified on a straight line basis over their useful or legal lives, whichever is shorter. Intangible assets with no specified useful lives are annually evaluated to check for a decline in their value and when there is a proof indicating such decline.

### **Impairment of Non-Current Assets**

L'azurde group conducts periodic reviews of the carrying amounts of tangible and intangible non-current assets to check for a proof of value impairment losses. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, L'azurde Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

### **Creditors and Amounts Due**

Obligations in consideration of amounts to be paid in the future for received goods or services are recognised, whether bills are issued by suppliers or not.

### **Provisions**

Provisions are recognised when the L'azurde group has (legal or expected) obligations as a result of a past event and the payments of the obligations are both probable and able to be reliably measured.

### **Goods**

The Goods consist of gold and other items. Gold is evaluated based on the prevailing market price, while other goods items are evaluated based on the cost or market value, whichever is less. Other goods items are specified as follows:

- **Raw and depreciated materials and other manufacturing materials:** Purchase cost on a weighted-average basis.
- **In progress and finished goods:** Cost of direct materials and labour and indirect expenses in line with normal activity.
- **Goods for sale:** In accordance with identifiable basis

A suitable provision shall be set aside for slow moving inventory. A suitable provision shall be set aside to cover expected moulding costs for all unsaleable goods that are re-melt to be reused in production. According to L'azurde Group's policy, such provisions are charged within the cost of revenue in the consolidated financial statement.

### **Zakat and Income Tax**

The Zakat provision shall be set aside on behalf of the Company and its Subsidiaries actually and wholly owned thereby as per the Saudi system of collecting Zakat. Subsidiaries outside the Kingdom set aside provisions for tax obligations, if any, in accordance with the tax laws and regulations applicable in the country in which such companies operate. The provision for Zakat and income tax is charged to the consolidated income statement.

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 realised or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date.

### **Operating Leases**

Payments are recognised pursuant to operating lease agreements as an expense in the consolidated income statement on a straight line basis over the term of the lease.

### **Employees End of Service Benefits**

A provision for End of Service benefits owed to employees for the combined service periods at the date of the consolidated income statement as per Saudi Arabian Labour and Workman Law.



## **Dividends**

Final dividends distributions are restricted as a liability when approved by the shareholders general assembly. Interim dividends distributions are restricted as a liability when approved by the Board of directors.

## **Revenue Recognition**

Revenue is recognised when issuing bills (according to prevailing gold prices at that time) and delivering goods to customers.

Revenue from sale of gold is recognised when the significant risks and rewards of ownership have passed to the buyer; it is probable that the economic benefits associated with the transaction will flow to the Group; the sale price can be measured reliably; the Group has no significant continuing involvement; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Other revenue is recognised when earned.

The revenue set out in the income statement shows two types of revenues, revenue from gold and revenue from operations. Revenue from gold refers to the value of gold weight used gold and diamond jewellery sold and which the gold was borrowed from banks. Revenue from operations refers to the added value component of the jewellery piece, namely labour service charge revenue, value of additions and other sources of revenue generated through wholesale and retail channels (gold and diamond) from the Kingdom, Egypt, the GCC and 10 other states. This is in addition to orders workshop of diamond products and tool centre (detailed later).

## **Expenses**

Selling and marketing expenses are specifically related to salespersons, storage and vehicles delivering the goods, in addition to the doubtful debts expense. Other expenses are classified as general and administrative expenses.

## **Transactions with Related Parties**

Related parties of the Group includes shareholders, directors and senior management of the Group as well as entities controlled or significantly influenced by such parties.

Transactions with related parties are made at prices agreed upon by the Group's management.

## **Gold Re-evaluation**

Registered gold transactions are translated into Saudi Riyals at the market prevailing prices when conducting relevant transactions. Assets and liability balances are re-evaluated in gold at the market prevailing prices in the market as at the date of the consolidated financial position statement. Realized Earnings and losses and unrealised losses from re-evaluating gold-related items are listed in the consolidated income statement. Unrealised earnings from re-evaluating gold are delayed until realised in subsequent buildings.

## **Foreign Currency**

- **Transactions:** Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of the relevant transactions. Monetary assets and liabilities denominated in foreign currencies at the date of consolidated financial statements are translated into Saudi Riyals at the exchange rates prevailing at that date. Realized and unrealised differences of foreign currency conversion are listed in the consolidated income statement.
- **Translation of external operations:** Financial statements of subsidiaries outside the Kingdom are transferred into Saudi Riyals at exchange rates prevailing at the date of the financial position statement for assets and liabilities at an average of translation price for each period in relation to revenues, expenses and profits and losses. Shareholders equity items except as retained earnings are translated at the exchange rate prevailing upon each item. Settlements resulting from translating foreign currencies, if substantial, are included as an independent item within the shareholders' equity.
- **Sectorial information:** Sector is the main part of L'azurde group that sells products or provides certain services (business sector), or sells products or provides services in a certain economic environment (geographical sector). Usually, a sector is vulnerable to risks and proceeds of different nature than other sectors.

## 6.4 Company's Plan as to Application of International Financial Reporting Standards

Company's management prepared a plan to transition from the auditing standards issued by the Saudi Organization for Chartered Public Accountants (SOCPA) into International Financial Reporting Standards (IFRS). This aims to ensure that such transition is effective and smooth in order to ultimately guarantee complete conversion from the current auditing standards governed by Saudi auditing standards into international financial reporting standards according to that is approved by Saudi Organization for Chartered Public Accountants (SOCPA) upon preparing Company's financial statements for the financial periods as at 1 January 2017.

Conversion Plan Includes the Following Main Procedures:

- Studying International Financial Reporting Standards (IFRS) and comparing them with auditing standards issued by Saudi Organization for Chartered Public Accountants (SOCPA). Furthermore, standards that have differences shall be identified as to whether such standards are related and have an impact on preparation of Company's financial statements.
- Seeking help from one of the auditing and financial consulting firms in order to develop an action plan and contribute to applying International Financial Reporting Standards.
- Identifying any changes that would be required in Company's auditing systems in order to fulfil disclosure or valuation requirements.
- Assessing any impact on Company's financial results or condition.
- Preparing transition plan and submitting it to Audit Committee and the Board of Directors for approval.

## 6.5 Principal Factors Affecting the L'azurde Group's Operations

Demand and supply for luxury goods such as gold and diamond jewellery is influenced by economic, political, and social factors, demographic profile, and events which include marriages and births. These principal factors affecting the demand for L'azurde Group's products are explained below.

### 6.5.1 Political and Economic Factors

The overall growth in the Saudi Arabian economy, driven by government spending, has led to a healthy increase in the purchasing power of the average Saudi Arabian consumer. An increase in purchasing power creates favourable conditions for growth in the retail market in general, as well as in discretionary spending such as jewellery.

L'azurde Group's performance is linked to the Kingdom's economic performance. Although the Government is continually seeking ways to diversify its sources of revenue, the Saudi Arabian economy is still principally dependent on the oil sector. Therefore, oil price fluctuations (especially when such prices witness a significant decrease) can have an adverse and material effect on the Saudi Arabian economy and businesses operating in the Kingdom in general (including L'azurde Group). A change in the economy's growth rate could have an adverse effect on disposable income by decreasing spending on L'azurde Group's products, which would adversely affect L'azurde Group's operations.

L'azurde Group's performance is also linked to the economy in Egypt. Since 2012G, Egypt experienced a 5.6% annual growth in real disposable income per household fuelled by governmental investment. Previously, real disposable income has been stagnant, growing at 0.6% per year between 2005G and 2012G. The relative increase in disposable income in 2013G is mainly due to government stimulus packages aimed at increasing minimum income, decreasing unemployment and developing national infrastructure. The growth in total disposable income increases the attractiveness of the Egyptian market for local and foreign jewellery players as Egyptians enjoy stronger buying power and develop into more active consumers in the retail market.

In addition to the above, a decrease in Egyptian government spending can slow down the economic growth rate and hence impact the spending power of individuals and hence impact L'azurde Group's financial performance.

The change in the political landscape of the export markets to which L'azurde Group sells can impact its operations and performance. Political instability in countries such as Libya, Yemen and Iraq can decrease revenues of L'azurde Group from export sales to these markets, leading the Group to focus more on key stable markets, i.e. the Kingdom of Saudi Arabia and Egypt markets, and reduce reliance on countries like Libya, Yemen and Iraq.

## 6.5.2 Demographic Profile

The Kingdom's population increased from 28.7 million in 2012G to 30.5 million in 2015G, representing a compound annual growth rate of around 2.0%. Furthermore, the Kingdom has a relatively young population with approximately 72% under the age of 40 years. The large and increasing proportion of young adults in the population coupled with growing disposable income is expected to boost modern retail and demand for non-traditional jewellery.

Egypt has a relatively young population with approximately 41% under the age of 20 years. In absolute terms, the young adult segments (20 to 39 years) is the fastest growing segment, adding more than 5.6 million young adults over ten years. Population growth, specifically young adults, provides a strong platform for growth in the retail and consumer market. The increasing proportion of young adults in the population will have a positive effect on expenditures on branded goods.

## 6.5.3 Social

Alongside economic and demographic development, several social factors have influenced the development of the retail and jewellery markets. These factors, including increasing marriage rates, urbanisation, consumer expenditure levels and female employment rates, have impacted consumer buying behaviour and driven demand for jewellery in the markets where L'azurde Group operates.

### 6.5.3.1 Marriages

Marriages are considered an important driver of jewellery demand, as the traditional wedding gift from a groom to his bride is gold and diamond jewellery. In particular, demand for gold and diamond jewellery sets (comprising a ring, necklace, bracelet and earrings) are typically driven by the number of marriages due to the strong cultural attachment to gifting of marriage sets.

### 6.5.3.2 Urbanisation

The movement of the Saudi Arabian population towards its major cities (e.g. Riyadh, Jeddah, Dammam and Makkah) has led to a rise in urbanisation levels. Urbanisation leads to a shift in expenditure patterns due to higher average disposable income in urban areas, larger exposure to branded products and a trend to more emotionally-driven spending behaviour as luxury consumption represents middle-class aspirations.

Egypt's relatively low urban population ratio, when compared to GCC countries is driving demand for more traditional jewellery purchases. The wide geographic distribution of consumer expenditure across Egypt represents a challenge for wholesalers and retailers as it requires them to be geographically spread across 50% of the regions in order to access 80% of total potential consumer expenditure.

### 6.5.3.3 Female Employment

Recent government initiatives have sought to encourage female participation across all sectors with the aim of reducing female unemployment. As a result, the female employment rate has increased from 14.4% in 2009G to 17.3% in 2015G. This is expected to boost annual disposable income per capita of the female population. The increased female spending power is expected to strengthen the overall financial position of Saudi Arabian households, and financially empower a key customer segment in the jewellery market.

## 6.5.4 Pilgrims and Tourism

The continuous stream of Hajj pilgrims provides a predictable source of foreign expenditure in the Kingdom. Hajj tourism plays a vital role in the Kingdom's economy with total number of inbound Hajj pilgrims amounting to 1.38 million in 2014G. In addition, International inbound tourism expenditure was tripled from SAR 20 billion in 2005G to SAR 60 billion in 2014G. Saudi Arabian retail businesses benefit from strong tourism during the seasonal Hajj and Umrah periods, particularly in the holy cities of Makkah and Madinah. In addition to positively impacting the overall retail sector, religious tourists typically purchase small gift items for relatives, including souvenir jewellery pieces.

Following the gradual move to more political stability in 2012G in Egypt, tourism expenditures witnessed a gradual recovery resulting in 2% growth in 2012G and 10% in 2013G. The upward trend in tourism expenditure is expected to improve the local economy overall, and, in particular, the retail and jewellery segments.

## 6.5.5 Gold Prices and Inventory Management

The demand for gold jewellery is also driven by global gold prices and therefore will have an effect on the demand for L'azurde Group's jewellery products. High gold prices in the past have driven smaller players out of the market who are unable to adapt their product offering thereby increasing demand for L'azurde Group's product offering. L'azurde Group is able to adapt its product offering to lower-weight jewellery during periods of high gold prices. Lower gold prices attract more players to the market, putting downward pressure on the prices for jewellery. During periods of low gold price, L'azurde Group believes that it is able to maintain its market share by increasing its production and differentiating its product offering based on branding, design and technology.

The nature of the business activity in the jewellery industry requires L'azurde Group to maintain significant holdings of gold inventories in its inventory and shops as raw material, work-in-progress, and finished goods. L'azurde Group has a diversified source of gold from local and international lenders. Nonetheless, the operation and performance of L'azurde Group may be affected should, for any reason, L'azurde Group not have sufficient inventory levels to respond to the changing needs and demand of its customers.

## 6.6 Results of Operations

### 6.6.1 L'azurde Group Consolidated Income Statements

**Table 6.1: Consolidated Income Statements for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000  | 2013G        | 2014G       | 2015G       | YoY growth    | YoY growth    | CAGR          |
|---|--------------|-------------|-------------|---------------|---------------|---------------|
|   |              |             |             | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Revenue from gold                               | 2,455,647    | 2,248,511   | 2,284,094   | (8.4%)        | 1.6%          | (3.6%)        |
| Revenue from operations                         | *447,873     | 468,443     | 530,103     | 4.6%          | 13.2%         | 8.8%          |
| Total Revenues                                  | 2,903,520    | 2,716,954   | 2,814,198   | (6.4%)        | 3.6%          | (1.6%)        |
| Cost of gold                                    | (2,455,647)  | (2,248,511) | (2,284,094) | (8.4%)        | 1.6%          | (3.6%)        |
| Cost of operations                              | ** (176,880) | (167,260)   | (190,779)   | (5.4%)        | 14.1%         | 3.9%          |
| Total cost of revenue                           | (2,632,527)  | (2,415,771) | (2,474,873) | (8.2%)        | 2.4%          | (3.0%)        |
| Gross profit                                    | 270,993      | 301,183     | 339,325     | 11.1%         | 12.7%         | 11.9%         |
| Selling and marketing expenses                  | (111,799)    | (121,564)   | (137,403)   | 8.7%          | 13.0%         | 10.9%         |
| General and administrative expenses             | (41,281)     | (48,991)    | (52,444)    | 18.7%         | 7.0%          | 12.7%         |
| Income from main operations                     | 117,913      | 130,628     | 149,478     | 10.8%         | 14.4%         | 12.6%         |
| Financial charges                               | (30,191)     | (27,964)    | (34,896)    | (7.4%)        | 24.8%         | 7.5%          |
| Other income/(expenses), net                    | (1,634)      | (3,133)     | 4,283       | 91.7%         | (236.7%)      | N/A           |
| Income before Zakat and income tax              | 86,088       | 99,531      | 118,864     | 15.6%         | 19.4%         | 17.5%         |
| Zakat   | (11,910)     | (13,240)    | (14,312)    | 11.2%         | 8.1%          | 9.6%          |
| Income Tax                                      | -            | -           | (3,986)     | N/A           | N/A           | N/A           |
| Net Income of the Period                        | 74,178       | 86,291      | 100,567     | 16.3%         | 16.5%         | 16.4%         |
| KPI s   |              |             |             |               |               |               |
| Wholesale gold quantity sold in kg              | 17,023       | 17,550      | 19,633      | 527           | 2,082         | 2,610         |
| Average wholesale gold revenue per gramme (SAR) | 21.0         | 21.8        | 21.8        | 0.8           | 0.0           | 1.0           |
| Total number of retail stores                   | 11           | 14          | 14          | 1             | 1             | 2             |

| SAR '000                                    | 2013G   | 2014G   | 2015G   | YoY growth    | YoY growth    | CAGR          |
|---|---------|---------|---------|---------------|---------------|---------------|
|   |         |         |         | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Average retail revenue per store (SAR '000) | 7,045.0 | 5,228.0 | 6,013.4 | (1,817.0)     | 785           | (1,032)       |
| As a % of total revenue from operations     |         |         |         |               |               |               |
| Gross profit                                | 60.5%   | 64.3%   | 64.0%   | -             | -             | -             |
| Selling and marketing expenses              | 25.0%   | 26.0%   | 25.9%   | -             | -             | -             |
| General and administrative expenses         | 9.2%    | 10.5%   | 9.9%    | -             | -             | -             |
| Finance Charges                             | 6.7%    | 6.0%    | 6.6%    | -             | -             | -             |
| Other income/(expenses), net                | (0.4%)  | (0.7%)  | 0.8%    | -             | -             | -             |
| Income from main operations                 | 26.3%   | 27.9%   | 28.2%   | -             | -             | -             |
| Net Income                                  | 16.6%   | 18.4%   | 19.0%   | -             | -             | -             |

Source: Consolidated Audited Financial Statements

\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to workshop orders of diamond products and L'azurde retail showrooms was removed, and as a sum of SAR 3.3 million related to gold wholesale to L'azurde retail showrooms. This revenue represents internal revenue incurred between L'azurde Group's divisions, as they are not considered to be actual external revenues and therefore its removal from L'azurde Group's financial results was necessary

\*\* Internal costs has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to the orders workshop of diamond products and L'azurde retail showrooms was removed, and as a sum of SAR 3.3 million related to the cost of gold wholesale to L'azurde retail showrooms. This cost represent internal cost incurred between L'azurde Group's divisions, as they are not considered to be actual additional costs and therefore its removal from L'azurde Group's financial results was necessary

## Revenue

There are two types of revenue set out in the previous table, revenue from gold and revenue from operations, according to sale's invoices issued throughout the year which include the quantity of gold sold valued at global prices in addition to the value-added component. Revenue from gold refers to the value of the gold weight used in the jewellery sold where an invoice is issued stating the quantity of gold sold to the customer and is valued at global prices. Revenue from operations refers to the value-added component of the jewellery piece, namely labour service charge revenue, value of additions and other sources of revenue generated through wholesale and retail channels (gold and diamond) from the Kingdom, Egypt, the GCC and 10 other states, in addition to workshop orders of diamond products and tool centre (detailed later). It should be noted that any decrease or increase in the value of gold revenue resulting from changes in gold price has no affect on the financial results of L'azurde Group. Such increase or decrease is offset by an equivalent value in terms of cost; accordingly, the actual revenue affecting the results of L'azurde Group is the revenue from operations. The term "revenue" will be used for referring to "revenue from operations" hereinafter, in section 6 ("Management's Discussion and Analysis of Financial Position and Results of Operations").

### Revenue from gold

Revenue from gold is recognised when issuing sales invoices to wholesale clients and delivering the quantities stated in the invoices. Each invoice contains the quantity of gold sold and not the value of gold sold, as clients are required to return the same quantity of gold stated in their invoices. Revenue from gold is valued daily based on the global gold price prevailing everyday for the purpose of preparing the financial statements.

Gold revenue decreased at a compound annual growth rate of 3.6% between 2013G and 2015G, decreasing by 8.4% from SAR 2.5 billion in 2013G to SAR 2.2 billion in 2014G as a result of the decrease in the average gold price from SAR 170.3 per gramme to SAR 152.9 per gramme during the same period. This was offset by an increase in the volume of wholesale gold sold by 527 kg.

Gold revenue increased slightly to SAR 2.3 billion in 2015G by 1.6%, as a result of an increase in the volume of wholesale gold sold by 2,082 kg, offset by a decrease in the average gold price from SAR 152.9 per gramme to SAR 140.7 per gramme during the same period. As mentioned above, increase and decrease in gold revenue resulting from changes in gold prices have no effect over the financial results of L'azurde Group.

## **Revenue from operations**

Revenue from operations is recognised when issuing sales invoices to customers and delivering the quantities stated in the invoices. Each wholesale client's invoice contains the quantity of gold sold in addition to the labour service charge, according to L'azurde Group's prices. As per the retail client's invoice, it contains the quantity of gold and jewellery sold and its value based on the global gold prices in that day, in addition to the labour service charge.

After excluding the internal revenue, revenue from L'azurde Group's operations increased at an annual compound growth rate of 8.8% between 2013G and 2015G. L'azurde Group's revenue increased by 4.6% in 2014G, from SAR 447.9 million in 2013G to SAR 468.4 million in 2014G. This was due to an increase in the volume of wholesale gold sold by 527 kg and the average gold wholesale revenue per gramme from SAR 21.0 to SAR 21.8.

Revenue from L'azurde Group's operations grew by 13.2% from SAR 468.4 million in 2014G to SAR 530.1 million in 2015G. This increase was driven by an increase in the value of gold wholesale by SAR 45.1 million as a result of an 11.9% increase in quantity sold by 2,082 kg. Furthermore, diamond wholesale value increased by SAR 15.2 million for the same period.

## **Cost of revenue**

Similar to the revenue division set out above, the cost of revenue in the above table sets out two kinds of costs, revenue costs from gold and revenue costs from operations.

### **Cost of revenue from gold**

Cost of revenue from gold refers to the value of the gold weight used in gold and diamond jewellery sold and borrowed from banks, as is the case in revenue from gold. The Company does not purchase or sell the gold, but it rather borrows it. Therefore, the change in gold global prices does not directly influence gold wholesale revenues and cost of sales.

Cost of revenue from gold decreased at a compound annual growth rate of 3.6% between 2013G and 2015G, decreasing by 8.4% from SAR 2.5 billion in 2013G to SAR 2.2 billion in 2014G as a result of a decrease in the average gold price from SAR 170.3 per gramme to SAR 152.9 per gramme during the same period. This was offset by an increase in the volume of wholesale gold sold by 527 kg.

Cost of revenue from gold increased slightly by 1.6% to reach SAR 2.3 billion in 2015G, as a result of an increase in the volume of gold wholesale sold by 2,082 kg. This was offset by a decrease in the average gold price from SAR 152.9 per gramme to SAR 140.7 per gramme during the same period. As mentioned above, increase and decrease in gold revenue resulting from changes in gold prices have no effect over the financial results of L'azurde Group.

### **Cost of revenue from operations**

After excluding the cost of internal revenue, cost of revenue from operations increased at an annual compound growth rate of 3.9%, between 2013G and 2015G. Cost of revenue decreased by 5.4% from SAR 176.9 million in 2013G to SAR 167.3 million in 2014G, primarily driven by a decrease in gold loss during production process by SAR 4.0 million, as L'azurde Group has managed to enhance its productivity and decrease its gold loss.

Cost of revenue increased in 2015G by 14.1% to reach SAR 190.8 million, due to an increase in raw material costs by SAR 10.7 million. This was offset by a decrease in the cost of modification to goods value by SAR 3.5 million.

## **Gross Profit**

Gross profit improved over the period under analysis at a CAGR of 11.9%, from SAR 271.0 million in 2013G to SAR 339.3 million in 2015G.

Gross profit increased by 11.1% from SAR 271.0 million in 2013G to SAR 301.2 million in 2014G, with the gross margin increasing from 60.5% to 64.3%, respectively. This growth was driven by a decrease in cost of revenue by 5.4% mainly due to an increase in the gross profit margin related to gold wholesale by 3.0%. The gross profit margin related to gold retail sales improved by 5.4% during the same period. This was achieved by implementing various new technological methods to capture excess gold residue from the production process, which contributed to decreasing the gold loss to the minimum levels. These technologies include installing new AC filters from which gold dust is extracted, in addition to improved security and human body detectors for metals. Additionally, this period witnessed higher sales in Egypt, which is characterised by higher gross margins compared to other regions, which are attributable to lower labour costs and the relatively smaller-scale retail business in Egypt compared to the other regions. The retail business is characterised by lower gross profit margins than the wholesale business. This is as a



result of including gold value from the cost of sales related to retail, requiring the customers to pay for the total value of jewellery in cash. In contrast, wholesale business excludes gold value from both revenue and cost of sales, where the customers reimburse the value of gold in physical gold or its equivalent in pure 21k gold, which leads to a higher gross margin.

L'azurde Group net profit increased from SAR 301.2 million in 2014G to SAR 339.3 in 2015G by 12.7%, primarily driven by growth in total revenue by 13.2%, along with stability in total profit margin in the same period at 64.0%.

### **Selling and Marketing Expenses**

Selling and marketing (S&M) expenses increased at a CAGR of 10.9% from 2013G to 2015G, from SAR 111.8 million in 2013G to SAR 137.4 million in 2015G.

S&M expenses increased by 8.7% from SAR 111.8 million in 2013G to SAR 121.6 million in 2014G. This increase was driven primarily by an increase in advertising expenses by SAR 8.0 million to support sales growth, coupled with an increase in employee costs by SAR 4.7 million driven by the increase in the number of S&M employee headcount by 16 employees, from 211 to 227.

S&M expenses of L'azurde Group increased by 13.0% from SAR 121.6 million in 2014G to SAR 137.4 million in 2015G. This increase was driven by an increase in stone removal and scrap collection by SAR 8.6 million, coupled with an increase in S&M employee costs by SAR 2.9 million driven by the increase in the number of S&M employee headcount by 24 employees, from 227 to 251.

### **General and Administrative Expenses**

General and administrative (G&A) expenses increased at a CAGR of 12.7% between 2013G and 2015G from SAR 41.3 million to SAR 52.4 million.

G&A expenses increased by 18.7% from SAR 41.3 million in 2013G to SAR 49.0 million in 2014G. The increase was mainly driven by an increase in salaries and employee benefits by SAR 5.4 million resulting from the increase in the G&A employee headcount by 28 employees from 318 employees to 346 employees, coupled with an increase in the average employee cost per year from SAR 100.1 thousand to SAR 102.8 thousand.

G&A expenses of L'azurde Group increased by 7.1% from SAR 49.0 million in 2014G to SAR 52.4 million in 2015G. The increase was mainly driven by an increase in salaries and employee benefits by SAR 2.2 million resulting from hiring 33 employees in the same period, i. e. increase of employees from 346 employees to 379 employees, coupled with an increase in costs of consulting and professional fees by SAR 931 thousand owing to increase of the Company's auditing costs.

### **Financial Charges**

Financial charges mainly represent the commission paid to banks on gold loans. Financial charges increased by a CAGR of 7.5% between 2013G and 2015G from SAR 30.2 million in 2013G to SAR 34.9 million in 2015G. Financial charges decreased by 7.4% from SAR 30.2 million in 2013G to reach SAR 28.0 million in 2014G, in spite of the increase of gold loans value from SAR 816 million in 2013G to SAR 1,049 million in 2014G. This was due to L'azurde Group's negotiations with the lending banks to lower the annual profit margin rate on gold loans in addition to lower global interest rates for gold loans.

Financial charges of L'azurde Group increased by 24.8% from SAR 28.0 million in 2014G to SAR 34.9 million as a result of an increase in gold loans by SAR 65.2 million from SAR 1,049 million in 2014G to SAR 1,114 million in 2015G, coupled with an increase of average commission rate and annual profit margin over gold loans as a result of increase in interest rates for all types of loans globally.

### **Other Income/Expenses, Net**

Other income/expenses mainly comprised of gains/losses from foreign currency exchange differences, gains/losses on disposal of property, plant and equipment, and miscellaneous expenses.

In 2014G, other expenses increased by 91.7% from an expense of SAR 1.6 million amounting to an expense of SAR 3.1 million, attributed to a write-off of prepayments amounting to SAR 2.0 million in relation to prepaid rent forfeited following the closure of the Al Salam store, as well as other losses from the closure of La Premiere and Al Salam stores amounting to SAR 2.2 million.

Other income of L'azurde Group increased from an expense of SAR 3.1 million in 2014G to an income of SAR 4.3 million in 2015G. This was predominantly due to an increase in gains from foreign currency exchange differences of SAR 5.1 million as a result of a decrease in the Egyptian pound conversion rate.



## Zakat

Zakat expense increased at a CAGR of 9.6% between 2013G and 2015G. The Zakat expense increased by 11.2% from SAR 11.9 million in 2013G to reach SAR 13.2 million in 2014G, then increased by 8.1% to reach SAR 14.3 million in 2015G in line with the increases in L'azurde Group's business activity and growth in income from operations.

## Income Tax

L'azurde Group incurred an income tax of SAR 4.0 million in 2015G due to the expiry of tax exemption related to OroEgypt Company in 31 December 2014G.

### 6.6.1.1 Revenue, by Subsidiaries

**Table 6.2: Operating Revenue by Region for the Years Ended 31 December 2013G, 2014G and 2015G**

| Name of Subsidiary                                 | Country of Incorporation         | 2013G    | 2014G   | 2015G   | Growth 2013G-2014G | Growth 2014G-2015G | CAGR 2013G-2015G |
|--|----------------------------------|----------|---------|---------|--------------------|--------------------|------------------|
| L'azurde Company for Jewelry                       | Saudi Arabia                     | *212,220 | 211,734 | 251,405 | (0.2 %)            | 18.7%              | 8.8%             |
| Almu-jawharat Almasiah Company                     | Saudi Arabia                     | -        | -       | -       | N/A                | N/A                | N/A              |
| Kenaz Company                                      | Saudi Arabia                     | -        | -       | -       | N/A                | N/A                | N/A              |
| L'azurde Egypt for Jewellery (LLC)                 | Egypt                            | 10,986   | 9,915   | 158,539 | (9.7%)             | 1499.0%            | 279.9%           |
| OroEgypt Company for Manufacturing Precious Metals | Egypt                            | 163,626  | 199,192 | 63,804  | 21.7%              | (68.0%)            | (37.6%)          |
| L'azurde Company for Jewellery LLC                 | United Arab Emirates – Dubai     | 60,188   | 43,928  | 49,860  | (27.0%)            | 13.5%              | (9.0%)           |
| L'azurde Jewellery LLC                             | United Arab Emirates – Abu Dhabi | 854      | 3,673   | 3,835   | 330.30%            | 4.4%               | 112.0%           |
| L'azurde for Jewellery                             | Qatar                            | -        | -       | 2,661   | N/A                | N/A                | N/A              |
| Total Revenue                                      |                                  | 447,873  | 468,443 | 530,104 | 4.6%               | 13.2%              | 8.8%             |

Source: The Company

\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to workshop orders of diamond products and L'azurde retail showrooms was removed, and a sum of SAR 3.3 million related to the cost of gold wholesale to L'azurde retail showrooms.

### Revenue for L'azurde Company for Jewelry

Revenue for L'azurde Company for Jewelry increased at a CAGR of 8.8% between 2013G and 2015G, while its revenue decreased slightly by 0.2%, from SAR 212.2 million in 2013G to SAR 211.7 million in 2014G. This was due to a decrease in retail revenue by 12.5% from SAR 76.6 million in 2013G to SAR 67.1 million in 2014G. The decline in retail revenues is mainly due to the closure of La Premiere store in the Kingdom in 2014G as the location became unfavourable as a result of governmental construction work around the shop site. A decrease in retail revenue was greatly offset by a 6% increase in gold wholesale revenue from SAR 127.6 million to SAR 135.2 million for the same period.

Revenue for L'azurde Company for Jewelry increased by 18.7% to reach SAR 251.4 million in 2015G. The revenue increased as a result of a 21.2% increase in wholesale gold revenue by SAR 28.6 million, combined

with an increase in wholesale diamond revenue and retail revenue by SAR 5.3 million and SAR 5.3 million, respectively.

#### **Revenue for Almujaawharat Almasiah Company**

Almujaawharat Almasiah Company, located in Saudi Arabia, has not yet begun its operations yet.

#### **Revenue for Kenaz Company**

Kenaz Company, located in Saudi Arabia, has not yet begun its operations.

#### **Revenue for L'azurde Egypt for Jewellery (LLC)**

Revenue for L'azurde Egypt for Jewellery (LLC) decreased by 9.7%, from SAR 11.0 million in 2013G to SAR 9.9 million in 2014G. This was due to a stricter credit terms applied to its customers in order to improve the working capital and reduce account receivables related to diamond wholesale revenue. In 2015G, revenue increased to SAR 158.5 million as a result of L'azurde Group's policy to concentrate its operations in Egypt through L'azurde Egypt for Jewellery (LLC) by purchasing new assets and building a factory (under construction).

#### **Revenue for OroEgypt Company for Manufacturing Precious Metals**

Revenue for OroEgypt Company for Manufacturing Precious Metals increased by 21.7%, from SAR 163.6 million in 2013G to SAR 199.2 million in 2014G. This was due to a 13.3% increase in gold quantity sold by 1,106 KG. Revenue decreased from SAR 199.2 million in 2014G to SAR 63.8 million in 2015G as a result of L'azurde Group's policy to concentrate its operations in Egypt through L'azurde Egypt for Jewellery (LLC) while OroEgypt Company for Manufacturing Precious Metals will mainly concentrate its operations on retail.

#### **Revenue for L'azurde Company for Jewellery LLC – Dubai**

Revenue for L'azurde Company for Jewellery LLC, located in Dubai-UAE, is comprised of gold wholesale where it exports L'azurde Group's products to many countries.

Gold wholesale revenue decreased by 27.0% from SAR 60.2 million in 2013G to SAR 43.9 million in 2014G. This decline was a result of a 29.5% decrease in gold wholesale volumes sold by 939 kg, due to a conscious decision by management to reduce export sales and customers' credit limits in Iraq and Libya given the increased political instability in these countries. This was offset by a slight increase in average wholesale revenue per gramme from SAR 18.9 to SAR 19.6, during the same period.

Revenue increased by 13.5% from SAR 43.9 million in 2014G to SAR 49.9 million in 2015G. The revenue increase was driven by an increase in revenues within UAE by SAR 5.9 million for the same period, coupled with export revenue stabilised at SAR 30.4 in 2014G and 2015G

#### **Revenue for L'azurde Jewellery LLC – Abu Dhabi**

Revenue for L'azurde Jewellery LLC, located in Abu Dhabi-UAE, is comprised of retail stores sales.

Revenue for L'azurde Jewellery LLC increased at a CAGR of 112.0% from SAR 0.9 million in 2013G to SAR 3.8 million in 2015G. Where revenue increased to SAR 3.7 million in 2014G, mainly due to the opening of a new store in Abu Dhabi which led to an increase in average retail revenue per store from approximately SAR 0.8 million in 2013G to SAR 3.7 million in 2014G.

Revenue slightly increased by 4.4% from SAR 3.7 million in 2014G to SAR 3.8 million in 2015G. The revenue increase was driven by an increase in revenues of Al-Ayn store by SAR 514 thousand, and offset by a decrease in revenues of Abu Dhabi retail store by SAR 424 thousand as a result of closing a retail store in December 2015G.

#### **Revenue for L'azurde for Jewellery – Qatar**

Revenue for L'azurde for Jewellery, located in Qatar, is composed of revenue from gold wholesale. L'azurde Group started gold wholesale in Qatar from March 2015G. Over nine (9) months, L'azurde Group was able to generate revenues of SAR 2.7 million, taking into consideration the fact that products sold to local Qatari customers are manufactured by L'azurde Saudi Arabia and then imported by L'azurde Qatar.

### 6.6.1.2 Revenue, by Region

**Table 6.3: Operating Revenue by Region for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000  | 2013G    | 2014G   | 2015G   | YoY growth    | YoY growth    | CAGR          |
|---|----------|---------|---------|---------------|---------------|---------------|
|   |          |         |         | 2013G – 2014G | 2014G – 2015G | 2013G – 2015G |
| The Kingdom   | *212,220 | 211,734 | 251,405 | (%0.2)        | 18.7%         | 8.8%          |
| Egypt   | 174,612  | 209,107 | 222,343 | 19.8%         | 6.3%          | 12.8%         |
| Qatar   | -        | -       | 2,661   | N/A           | N/A           | N/A           |
| UAE   | 61,041   | 47,601  | 53,695  | (22.0%)       | 12.8%         | (6.2%)        |
| Net Revenue   | 447,873  | 468,443 | 530,104 | 4.6%          | 13.2%         | 8.8%          |
| KPIs  |          |         |         |               |               |               |
| Wholesale gold quantity sold in kg                                  |          |         |         |               |               |               |
| The Kingdom   | 5,536    | 5,897   | 7,072   | 361           | 1,175         | 1,536         |
| Egypt   | 8,306    | 9,412   | 10,098  | 1,106         | 686           | 1,792         |
| UAE   | 3,181    | 2,242   | 2,370   | (939)         | 128           | (811)         |
| Qatar   | -        | -       | 93      | -             | 93            | 93            |
| Total wholesale gold  | 17,023   | 17,550  | 19,633  | 527           | 2,082         | 2,610         |
| Total wholesale gold revenue (SAR '000)                             | 360,781  | 384,846 | 427,063 | 24,065        | 42,218        | 66,283        |
| Revenue from operations for regions as % of revenue from operations |          |         |         |               |               |               |
| The Kingdom   | 47.4%    | 45.2%   | 47.4%   | -             | -             | -             |
| Egypt   | 39.0%    | 44.6%   | 41.9%   | -             | -             | -             |
| Qatar   | 0.0%     | 0.0%    | 0.5%    | -             | -             | -             |
| UAE   | 13.6%    | 10.2%   | 10.1%   | -             | -             | -             |

Source: The Company

\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to workshop orders of diamond products and L'azurde retail showrooms was removed, and a sum of SAR 3.3 million related to the cost of gold wholesale to L'azurde retail showrooms.

#### The Kingdom, Revenue

Saudi Arabia revenue increased at a CAGR of 8.8% between 2013G and 2015G. In 2014G, Saudi Arabian revenue decreased slightly by 0.2%, from SAR 212.2 million in 2013G to SAR 211.7 million in 2014G. This was due to a decrease in retail revenue by 12.5% from SAR 76.6 million in 2013G to SAR 67.1 million in 2014G. The decline in retail revenues is mainly due to the closure of La Premiere store in the Kingdom in 2014G as the location became unfavourable as a result of governmental construction work around the shop site. Decrease in retail revenue was greatly offset by a 6% increase in gold wholesale revenue from SAR 127.6 million to SAR 135.2 million

Saudi Arabian revenue increased by 18.7% from SAR 211.7 million in 2014G to SAR 251.4 million in 2015G. The revenue increased as a result of a 21.2% increase in wholesale gold revenue by SAR 28.6 million, due to a 19.9% increase in quantity of gold sold by 1,175 kg, combined with an increase in wholesale diamond revenue and retail revenue by SAR 5.3 million and SAR 5.3 million, respectively.

**Table 6.4: Saudi Arabian Revenues from Gold Wholesale for Years ended 31 December 2013G, 2014G and 2015G**

| SAR '000   | 2013G    | 2014G   | 2015G   | YoY growth    | YoY growth    | CAGR          |
|--|----------|---------|---------|---------------|---------------|---------------|
|  |          |         |         | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Local Revenues                                   | *107,332 | 114,569 | 151,778 | 6.8%          | 32.5%         | 18.9%         |
| Exports  | 20,237   | 20,631  | 12,045  | 1.9%          | (41.6%)       | (22.9%)       |
| Total Saudi Arabian revenues from gold wholesale | 127,559  | 135,201 | 163,824 | %6.0          | 21.2%         | %13.3         |

Source: The Company

\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 3.3 million related to the cost of gold wholesale to L'azurde retail showrooms was removed.

Saudi local revenue from gold wholesale increased at an annual compound growth rate of 18.9%, due to an increase in revenue by 6.8% and 32.5% in 2014G and 2015G, respectively. The increase was a result of advertising campaigns, developing new products, and placing an increased focus on the Saudi market to offset the decrease in exports to the markets suffering political and economic unrest.

**Table 6.5: Saudi Arabian Export Revenues from Gold Wholesale for Years ended 31 December 2013G, 2014G and 2015G**

| SAR '000                    | 2013G  | 2014G  | 2015G  | YoY growth    | YoY growth    | CAGR          |
|-----------------------------|--------|--------|--------|---------------|---------------|---------------|
|                             |        |        |        | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Kuwait                      | 6,863  | 6,934  | 7,715  | 1.0%          | 11.3%         | 6.0%          |
| Qatar                       | 732    | 3,165  | 1,900  | 332.4%        | (40.0%)       | 61.1%         |
| Yemen                       | 12,583 | 10,511 | 1,010  | (16.5%)       | (90.4%)       | (71.7%)       |
| Bahrain                     | 29     | 21     | 1,420  | (27.6%)       | 6661.9%       | 599.8%        |
| Sudan                       | 30     | -      | -      | N/A           | N/A           | N/A           |
| Total Saudi Arabian exports | 20,237 | 20,631 | 12,045 | 1.9%          | (41.6%)       | (22.9%)       |

Source: The Company

#### **Saudi Arabian Export Revenues from gold wholesale to Kuwait**

Revenue from Kuwait increased at a compound annual growth rate of 6%, as revenue increased by 11.3% in 2015G due to the offering of new products of 18k gold.

#### **Saudi Arabian Export Revenues from gold wholesale to Qatar**

Revenue from Qatar increased at an annual compound growth rate of 61.1% due to the great growth achieved in 2014G by 332.4% as a result of selling to a new retail network in Qatar. In 2015G, revenue decreased by 40% due to a decrease in credit sales for the retail clients previously mentioned, as well as L'azurde Group directly selling in Qatar through its subsidiary. Thus resulting in revenues being recorded in L'azurde Qatar instead of Saudi Export revenues.

#### **Saudi Arabian Export Revenues from gold wholesale to Yemen**

Revenue from Yemen decreased at an annual compound growth rate of 71.7% due to L'azurde's strategy of reducing exposure risks in the Yemeni market due to the political and economical unrest by reducing credit sales.

#### **Saudi Arabian Export Revenues from gold wholesale to Bahrain**

Revenue from Bahrain increased at an annual compound growth rate of 8.6% as a result of an increase in sales in 2015G due to the signing of a new contract with wholesalers in gold markets in Bahrain.

#### **Saudi Arabian Export Revenues from gold wholesale to Sudan**

L'azurde Group stopped sales to Sudan in 2014G, due to the weak demand of L'azurde Group's products.

## Egypt, Revenue

Egypt revenue is mainly generated from two entities in Egypt (OroEgypt and L'azurde Egypt). Egypt revenue increased at a CAGR of 12.8% between 2013G and 2015G.

Revenue increased by 19.8% from SAR 174.6 million in 2013G to SAR 209.1 million in 2014G. The growth was mainly driven by a 13.3% increase in wholesale gold volume by 1,106 kg, attributable to the introduction of new products, investment in celebrity endorsement and negotiation of better commercial terms with customers. In addition, the period witnessed a growth in the average wholesale gold price from SAR 19.7 to SAR 20.9 per gramme.

Egypt revenue increased by 6.3% from SAR 209.1 million in 2014G to SAR 222.3 million in 2015G. The revenue increased as a result of an increase in wholesale gold revenue by SAR 8.2 million, due to a 7.3% increase in the volume sold by 687 kg, combined with an increase in retail revenues by SAR 5.4 million. This was offset by a decrease in wholesale diamond revenue by SAR 0.4 million.

## Qatar, Revenue

Qatar revenue is generated from L'azurde Company for Jewellery in Qatar which is composed of Qatar revenue from gold wholesale. L'azurde Group started gold wholesale in Qatar from March 2015G. Over nine (9) months, L'azurde Group was able to generate revenues of SAR 2.7 million, taking into consideration the fact that products sold to local Qatari customers are manufactured by L'azurde Saudi Arabia and then imported by L'azurde Qatar.

## UAE, Revenue

UAE revenue is mainly generated from L'azurde Dubai and L'azurde Abu Dhabi. L'azurde Dubai's revenue is comprised of wholesale gold jewellery export sales, which is jewellery sourced from the Company, while L'azurde Abu Dhabi generated revenue from a single retail store in 2013G, two stores in 2014G and one store in 2015G.

UAE revenue decreased at a CAGR of 6.2% between 2013G and 2015G. UAE revenue decreased by 22% from SAR 61.0 million in 2013G to SAR 47.6 million in 2014G. This decline was the result of a 27.0% decrease in gold wholesale volumes sold by 939 kg, following a conscious decision by management to reduce Dubai export sales and customers' credit limits in Iraq and Libya given the increased political instability in these countries.

UAE revenue increased by 12.8% from SAR 47.6 million in 2014G to SAR 53.7 million in 2015G. The revenue increase was driven by the increase in revenues in Dubai by SAR 5.9 million as a result of an increase of gold wholesale by 5.7% to 128 kg as well as the increase of revenues in Abu Dhabi by 4.4% to SAR 162 thousand.

**Table 6.6: UAE Revenues from Gold Wholesale for Years ended 31 December 2013G, 2014G and 2015G**

|  | 2013G  | 2014G  | 2015G  | YoY growth    | YoY growth    | CAGR          |
|--|--------|--------|--------|---------------|---------------|---------------|
|  |        |        |        | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Local Revenues                         | 17,359 | 13,526 | 19,465 | (22.1%)       | 43.9%         | 5.9%          |
| Exports                                | 42,829 | 30,402 | 30,395 | (29.0%)       | (0.0%)        | (15.8%)       |
| Total UAE revenues from gold wholesale | 60,188 | 43,928 | 49,860 | (27.0%)       | 13.5%         | (9.0%)        |

Source: The Company

UAE local revenue from gold wholesale increased at an annual compound growth rate of 5.9%. Revenues decreased in 2014G by 22.1% as a result of tough competition, while revenue increased by 43.9% in 2015G as a result of the offering of new product collections.

**Table 6.7: UAE Export Revenues from Gold Wholesale for Years ended 31 December 2013G, 2014G and 2015G**

| SAR '000              | 2013G  | 2014G  | 2015G  | YoY growth    | YoY growth    | CAGR          |
|-----------------------|--------|--------|--------|---------------|---------------|---------------|
|                       |        |        |        | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Iraq                  | 20,598 | 12,559 | 11,324 | (39.0%)       | (9.8%)        | (25.9%)       |
| Libya                 | 8,050  | 6,160  | 2,479  | (23.5%)       | (59.8%)       | (44.5%)       |
| Oman                  | 6,033  | 5,350  | 7,009  | (11.3%)       | 31.0%         | 7.8%          |
| Jordan                | 1,819  | 1,797  | 5,097  | (1.2%)        | 183.6%        | 67.4%         |
| Other                 | 6,327  | 4,537  | 4,486  | (28.3%)       | (1.1%)        | (15.8%)       |
| Total export revenues | 42,829 | 30,402 | 30,395 | (29.0%)       | (0.0%)        | (15.8%)       |

Source: The Company

Exports from gold wholesale in UAE decreased at an annual compound growth rate of 15.8% between 2013G and 2015G. The following explanation includes details of UAE export revenues from gold Wholesale:

#### **UAE Export Revenues from gold wholesale to Iraq**

Revenue from Iraq decreased at an annual compound growth rate of 25.9% between 2013G and 2015G, due to L'azurde's management affinity towards reducing credit risks aiming to reduce exposure in the Iraqi market due to the political and economical unrest.

#### **UAE Export Revenues from gold wholesale to Libya**

Revenue from Libya decreased at an annual compound growth rate of 44.5% between 2013G and 2015G due to L'azurde's management affinity towards reducing credit risks aiming to reduce exposure to the Libyan market due to the political and economical unrest.

#### **UAE Export Revenues from gold wholesale to Oman**

Revenue from Oman increased at an annual compound growth rate of 7.8% between 2013G and 2015G as a result of signing a new contract with major wholesalers.

#### **UAE Export Revenues from gold wholesale to Jordan**

Revenue from Jordan increased at an annual compound growth rate of 67.4% between 2013G and 2015G as a result of signing a new contract with major wholesalers and offering new products.

#### **UAE Export Revenues from gold wholesale to other countries**

Revenue from other countries increased at an annual compound growth rate of 15.8% between 2013G and 2015G as a result of direct selling by L'azurde inside Qatar through its subsidiary therein. This resulted in recording revenues in L'azurde Qatar instead of UAE Export Revenues.

## Group's Revenue in terms of Distribution Channels

**Table 6.8: Saudi Arabia Revenue in Terms of Sale Channels for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000          | 2013G    | 2014G   | 2015G   | YoY growth    | YoY growth    | CAGR          |
|-------------------|----------|---------|---------|---------------|---------------|---------------|
|                   |          |         |         | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Wholesale gold    | *351,062 | 375,896 | 421,341 | 7.1%          | 12.1%         | 9.6%          |
| Wholesale diamond | 11,564   | 10,510  | 15,368  | (9.1%)        | 46.2%         | 15.3%         |
| Total wholesale   | 362,626  | 386,406 | 436,709 | 6.6%          | 13.0%         | 9.7%          |
| Retail            | 77,500   | 73,194  | 84,187  | (5.6%)        | 15.0%         | 4.2%          |
| Other Revenues    | **7,747  | 8,842   | 9,207   | 14.1%         | 4.1%          | 9.0%          |

Source: The Company

\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to workshop orders of diamond products and L'azurde retail showrooms was removed, and removal of SAR 3.3 million related to gold wholesale to L'azurde retail showrooms.

\*\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to workshop orders of diamond products and L'azurde retail showrooms was removed, and removal of SAR 3.3 million related to the cost of gold wholesale to L'azurde retail showrooms.

## A) Saudi Arabian Revenue by Distribution Channel

**Table 6.9: Saudi Arabia Revenue by Distribution Channel for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000  | 2013G    | 2014G   | 2015G   | YoY growth    | YoY growth    | CAGR          |
|---|----------|---------|---------|---------------|---------------|---------------|
|   |          |         |         | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Wholesale gold                                  | *127,559 | 135,201 | 163,824 | 6.0%          | 21.2%         | 13.3%         |
| Wholesale diamond                               | 267      | 595     | 5,862   | 122.8%        | 885.2%        | 368.6%        |
| Total wholesale                                 | 127,826  | 135,795 | 169,686 | 6.2%          | 25.0%         | 15.2%         |
| Retail  | 76,646   | 67,097  | 72,512  | (12.5%)       | 8.1%          | (2.7%)        |
| Others  | **7,747  | 8,842   | 9,207   | 14.1%         | 4.1%          | 9%            |
| Total   | 212,220  | 211,734 | 251,405 | (0.2%)        | 18.7%         | 8.8%          |
| KPIs  |          |         |         |               |               |               |
| Wholesale gold quantity sold in kg              | 5,536    | 5,897   | 7,072   | 361           | 1,175         | 1,536         |
| Average wholesale gold revenue per gramme (SAR) | 23.0     | 22.9    | 23.2    | (0.1)         | 0.2           | 0.4           |
| Total number of retail stores                   | 11       | 10      | 12      | (1)           | 2             | 1             |
| As % of total revenue from operations           |          |         |         |               |               |               |
| Wholesale gold                                  | 60.1%    | 63.9%   | 65.1 %  | -             | -             | -             |
| Wholesale diamond                               | 0.1%     | 0.2%    | 2.3 %   | -             | -             | -             |
| Total wholesale                                 | 60.2%    | 64.1%   | 67.5%   | -             | -             | -             |
| Retail  | 36.1%    | 31.7%   | 28.8 %  | -             | -             | -             |
| Other   | 3.7%     | 4.2%    | 3.7 %   | -             | -             | -             |

Source: The Company

\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 3.3 million related to the cost of gold wholesale to L'azurde retail showrooms was removed.

\*\* Internal revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to the orders workshop of diamond products and L'azurde retail showrooms was removed



### **Revenue from Wholesale Gold**

Revenues from gold wholesale increased at an annual compound growth rate of 13.3% from SAR 127.6 million in 2013G to SAR 163.8 million in 2015G. Gold wholesale revenue increased by 6.0% from SAR 127.6 million in 2013G to SAR 135.2 million in 2014G, due to an increase in volume sold by 361 kg, mostly inside the Kingdom as a result of offering new products and designs. Average wholesale gold revenue per gramme remained relatively stable around SAR 23.0 for the same period.gramme

Saudi Arabian revenue increased by 21.2% from SAR 135.2 million in 2014G to SAR 163.8 million in 2015G. This was driven by an increase in gold wholesale by 1,175 kg as well as the increase of average wholesale gold revenue per gramme by SAR 0.2, reaching SAR 23.2 per gramme in 2015G.

### **Revenue from Wholesale Diamond**

Wholesale diamond mainly relates to a new jewellery product line called Kenaz introduced by L'azurde Group in 2013G. Revenues from wholesale diamond reached SAR 267 thousand in 2013G, followed by an increase of 122.8% to SAR 595 thousand in 2014G.

Wholesale diamond revenue for L'azurde Group in Saudi Arabia increased by 885.6% from SAR 595 thousand in 2014G to SAR 5.9 million in 2015G as a result of increased operations in relation to wholesale diamond, supported by increased investments in this business-line by hiring new sales officers.

### **Revenue from Retail**

Retail revenue in the Kingdom was generated from 11 stores in 2013G, 10 stores in 2014G and 12 stores in 2015G, spread across the Kingdom.

Retail revenue decreased by 12.5% from SAR 76.6 million in 2013G to SAR 67.1 million in 2014G. This decline was due to the closure of the La Premiere store during the same year due to governmental construction work around the shop location which made the store unattractive.

Retail revenue in the Kingdom grew by 8.1% from SAR 67.1 million in 2014G to SAR 72.5 million in 2015G, mainly due to an increase in diamond retail revenues by SAR 5.0 million resulting from a decrease in discounts offered to customers, coupled with a slight increase of 2.1% in gold retail revenue by SAR 443 thousand.

The Group's policy for offering discounts on diamond retail sales is based on the following factors: (1) General demand for diamond products as well as the market position; (2) discounts offered by competitors; (3) degree of demand for the Group's different product lines, as greater demand results in lesser discounts offered; (4) profitability of each of the Group's different product lines, the more profitable a certain line is, the more discounts can be offered; (5) inventory availability of each product line, the longer inventory days for a certain product, the more discounts are offered. In general, average discounts offered on diamond retail sales amounted to roughly 60% within the previous three years.

### **Other Revenues**

Other revenues mainly relate to revenue from the workshop and tool centre. Workshop revenue is generated from manufacturing and selling diamond jewellery to L'azurde's own retail shops, as well as to external clients. Tool centre revenue mainly relates to the sales and distribution of machinery and tools on behalf of gold and/or diamond jewellery equipment manufacturers.

Other revenues increased by 14.1% from SAR 7.8 million in 2013G to SAR 8.8 million in 2014G, as a result of increased sales of workshop orders for diamond products to reach SAR 3.2 million.

L'azurde Group's other revenues increased by 4.1% from SAR 8.8 million in 2014G to SAR 9.2 million in 2015G. This was due to an increase in the sales of orders workshop for diamond products.

## B) Egypt Revenue by Distribution Channel

**Table 6.10: Egypt Revenue by Distribution Channel for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000  | 2013G   | 2014G   | 2015G   | YoY growth    | YoY growth    | CAGR          |
|---|---------|---------|---------|---------------|---------------|---------------|
|   |         |         |         | 2013G – 2014G | 2014G – 2015G | 2013G – 2015G |
| Wholesale gold                                  | 163,315 | 196,768 | 204,996 | 20.5%         | 4.2%          | 12.0%         |
| Wholesale diamond                               | 11,297  | 9,915   | 9,506   | (12.2%)       | (4.1%)        | (8.3%)        |
| Total wholesale                                 | 174,612 | 206,683 | 214,502 | 18.4%         | 3.8%          | 10.8%         |
| Retail  | -       | 2,424   | 7,840   | N/A           | 223.4%        | N/A           |
| Total   | 174,612 | 209,107 | 222,342 | 19.8%         | 6.3%          | 12.8%         |
| KPIs  |         |         |         |               |               |               |
| Wholesale gold quantity sold in kg              | 8,306   | 9,412   | 10,098  | 1,106         | 686           | 1,792         |
| Average wholesale gold revenue per gramme (SAR) | 19.7    | 20.9    | 20.3    | 1.2           | (0.6)         | 0.6           |
| Number of retail stores                         | -       | 1       | 2       | 1             | 1             | 2             |
| As % of revenue from operations                 |         |         |         |               |               |               |
| Wholesale gold                                  | 93.5%   | 94.1%   | 92.2%   | –             | –             | –             |
| Wholesale diamond                               | 6.5%    | 4.7%    | 4.3%    | –             | –             | –             |
| Total wholesale revenue                         | 100.0%  | 98.8%   | 96.5%   | –             | –             | –             |
| Retail  | 0.0%    | 1.2%    | 3.5%    | –             | –             | –             |

Source: The Company

### Revenue from Wholesale Gold

Wholesale gold revenue increased at a CAGR of 12.0% from SAR 163.3 million in 2013G to SAR 205.0 million in 2015G.

Wholesale gold revenue grew by 20.5% from SAR 163.3 million in 2013G to SAR 196.8 million in 2014G. This increase was due to a 13.3% growth in volume by 1,106 kg, driven by more product innovation, and investing in celebrity endorsements and production technology which supported higher premium prices compared to previous prices.

Egypt revenue increased by 4.2% from SAR 196.8 million in 2014G to SAR 205.0 million in 2015G. This was driven by a 7.3% increase in quantity sold to 687 kg. This was offset by a decrease in average wholesale gold revenue per gramme by SAR 0.6, reaching to SAR 20.3 per gramme in 2015G.

### Revenue from Wholesale Diamond

Wholesale diamond revenue, which is related to L'azurde Egypt, decreased by 12.2% from SAR 11.3 million in 2013G to SAR 9.9 million in 2014G. This was a result of management restricting credit to customers in order to improve working capital and reduce receivables for this new line of business.

Wholesale diamond revenue of the Group in Egypt decreased by 4.1% from SAR 9.9 million in 2014G to SAR 9.5 million in 2015G because the management sought to decrease credit facilities provided to customers in order to better manage the working capital.

### Revenue from Retail

Retail revenue related to one store in Egypt which commenced operations in 2014G. Retail revenue increased by 223.4% from SAR 2.4 million in 2014G to SAR 7.8 million in 2015G, due to opening a new store located in Mall of Arabia in June 2015G.

## C) Qatar Revenue by Distribution Channel

Qatar revenue relates to revenue generated from gold wholesale only. L'azurde Group began gold wholesale operations in Qatar as of March 2015G. During nine (9) months since the beginning of operations, L'azurde Group was able to generate revenues of SAR 2.7 million. It is noteworthy that products sold to local Qatari customers are manufactured by L'azurde Saudi Arabia and then imported by L'azurde Qatar.

#### D) UAE Revenue by Distribution Channel

**Table 6.11: UAE Revenue by Distribution Channel for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000  | 2013G  | 2014G  | 2015G  | YOY Growth    | YOY Growth   | CAGR          |
|---|--------|--------|--------|---------------|--------------|---------------|
|   |        |        |        | 2013G – 2014G | 2014G- 2015G | 2013G – 2015G |
| Wholesale gold                                  | 60,188 | 43,927 | 49,860 | (27.0%)       | 13.5%        | (9.0%)        |
| Retail  | 854    | 3,673  | 3,835  | 330.1%        | 4.4%         | 111.9%        |
| Total   | 61,042 | 47,600 | 53,695 | (22.0%)       | 12.8%        | (6.2%)        |
| KPIs  |        |        |        |               |              |               |
| Wholesale gold quantity sold in kg              | 3,181  | 2,242  | 2,370  | (939)         | 128          | (811)         |
| Average wholesale gold revenue per gramme (SAR) | 18.9   | 19.6   | 21.0   | 0.7           | 1.4          | 2.1           |
| Number of retail stores                         | 1      | 2      | 1      | 1             | (1)          | -             |
| As % of revenue from operations                 |        |        |        |               |              |               |
| Wholesale gold                                  | 98.6%  | 92.3%  | 92.9%  | -             | -            | -             |
| Retail  | 1.4%   | 7.7%   | 7.1%   | -             | -            | -             |

Source: The Company

#### Revenue from Wholesale Gold

Revenue from wholesale gold is related to L'azurde Dubai, which mainly sells in the export markets.

Wholesale gold revenue decreased by 27.0% from SAR 60.2 million in 2013G to SAR 43.9 million in 2014G. The decrease in revenue was mainly as a result of a 29.5% decrease in wholesale gold volume sold of 939 kg, following a conscious decision by management to reduce Dubai export sales and customers' credit limits to Iraq and Libya given the increased political instability in these countries. This decline was slightly offset by an increase in the average gold wholesale revenue per gramme from SAR 18.9 to SAR 19.6.

UAE wholesale gold revenue increased by 13.5% from SAR 43.9 million in 2014G to SAR 49.9 million in 2015G. This was due to an increase in revenues in the UAE by SAR 5.9 million during the same period, coupled with stable revenues from exports in the amount of SAR 30.4 million in 2014G and 2015G.

#### Revenue from Retail

Retail revenue increased at a CAGR of 111.9% from SAR 0.9 million in 2013G to SAR 3.8 million in 2015G. Retail revenue increased by 330.1% from SAR 0.9 million in 2013G to SAR 3.7 million in 2014G. This revenue growth was mainly due to the opening of a new store in Abu Dhabi in 2014G, which drove up the average retail revenue per store from approximately SAR 0.8 million in 2013G to SAR 1.8 million in 2014G. Retail revenue has slightly increased by 4.4% from SAR 3.7 million in 2014G to SAR 3.8 million in 2015G. This was due to an increase in Al Ain store revenue by SAR 514 thousand, which was offset by a decrease in Abu Dhabi stores revenues by SAR 424 thousand due to closing of a showroom in December 2015G.

#### 6.6.1.3 Cost of Revenue

**Table 6.12: Cost of Revenue for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                                     | 2013G    | 2014G  | 2015G  | YoY growth 2013G – 2014G | YoY growth 2014G – 2015G | CAGR 2013G – 2015G |
|--|----------|--------|--------|--------------------------|--------------------------|--------------------|
| Raw Material Cost                            | * 77,676 | 66,320 | 76,995 | (14.6%)                  | 16.1%                    | (0.4%)             |
| Labour Cost                                  | **57,821 | 61,490 | 73,697 | 6.3%                     | 19.9%                    | 12.9%              |
| Other Overhead cost                          | 8,416    | 9,399  | 11,203 | 11.7%                    | 19.2%                    | 15.4%              |
| Net Gold Loss, Melting and Modification cost | 18,345   | 15,342 | 15,439 | (16.4%)                  | 0.6%                     | (8.3%)             |
| Other costs                                  | 14,623   | 14,708 | 13,463 | 0.6%                     | (8.5%)                   | (4.0%)             |

| SAR '000                                       | 2013G   | 2014G   | 2015G   | YoY growth<br>2013G –<br>2014G | YoY growth<br>2014G –<br>2015G | CAGR<br>2013G –<br>2015G |
|--|---------|---------|---------|--------------------------------|--------------------------------|--------------------------|
| Total cost of sales                            | 176,880 | 167,260 | 190,797 | (5.4%)                         | 14.1%                          | 3.9                      |
| KPIs   |         |         |         |                                |                                |                          |
| Headcount                                      | 1,761   | 1,943   | 2,144   | 182                            | 201                            | 383                      |
| Average labour cost per employee<br>(SAR '000) | 34.7    | 31.6    | 34.4    | (3.1)                          | 2.7                            | (0.3)                    |
| As % of revenue from operations                |         |         |         |                                |                                |                          |
| Raw materials                                  | 17.3%   | 14.2%   | 14.5%   | –                              | –                              | –                        |
| Labour cost                                    | 12.9%   | 13.1%   | 13.9%   | –                              | –                              | –                        |
| Overhead – Others                              | 1.9%    | 2.0%    | 2.1%    | –                              | –                              | –                        |
| Net Gold Loss                                  | 4.1%    | 3.3%    | 2.9%    | –                              | –                              | –                        |
| Others   | 3.3%    | 3.1%    | 2.5%    | –                              | –                              | –                        |
| Total  | 39.5%   | 35.7%   | 36.0%   | –                              | –                              | –                        |

Source: The Company

\* Internal cost of revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 20.5 million related to the orders workshop of diamond products and L'azurde retail showrooms was removed.

\*\* Internal cost of revenue has been excluded between different distribution channels within L'azurde Group in 2013G, as a sum of SAR 3.3 million related to gold wholesale to L'azurde retail showrooms.

### Raw Material Cost

Raw materials include a variety of components, depending on the type of jewellery, and whether the item is intended for the wholesale or retail operations. These raw materials mainly comprise of diamonds, precious and semi-precious stones, ready-made pieces of jewellery and outsourced semi-finished jewellery products (largely for the retail sector). Raw material costs decreased at a CAGR of 0.4% between 2013G and 2015G. Raw material costs decreased by 14.6% from SAR 77.6 million in 2013G to SAR 66.3 million in 2014G, as a result of a decrease in retail revenue due to the close down of La Premiere Showroom.

Raw material costs increased by 16.1% from SAR 66.3 million in 2014G to SAR 77.0 million in 2015G due to an increase in retail revenue by 15.0% from SAR 73.2 million in 2014G to SAR 84.2 million in 2015G.

### Labour Cost

Labour cost includes basic salaries, bonuses, and employee benefits, which includes housing allowance, end of service benefits, transportation allowance and other costs for direct staff involved in the manufacturing process and product development. Labour costs increased at a CAGR of 12.9% from SAR 57.9 million in 2013G to SAR 73.7 million in 2015G.

Labour costs increased by 6.3% from SAR 57.9 million in 2013G to SAR 61.5 million in 2014G, resulting from an increase of 182 manufacturing employees, who are mostly low cost labourers/ factory workers, thus causing the average labour cost per employee to decrease by 8.8% from SAR 34.7 thousand in 2013G to SAR 31.6 thousand in 2014G.

Labour costs increased by 19.9% from SAR 61.5 million in 2014G to SAR 73.7 million in 2015G. The increase was driven by an addition of 201 employees to the manufacturing headcount, increasing the total number from 1,943 employees to 2,144 employees.

Labour cost remained relatively stable at 13.0% between 2013G and 2014G. However, labour costs slightly increased in 2015G to reach 13.9%, due to an 8.6% increase of average labour cost from SAR 33.6 thousand in 2014G to SAR 34.4 thousand in 2015G.

### Other Overhead Costs

Other overhead costs mainly relate to recruitment, electricity, insurance, fuel, and repair costs, in addition to the cost of design (related to software and hardware maintenance for jewellery design equipment). Other overhead costs increased at a CAGR of 15.4% from SAR 8.4 million in 2013G to SAR 11.2 million in 2015G.

Other overhead costs increased by 11.7% from SAR 8.4 million in 2013G to SAR 9.4 million in 2014G, in line with increased production for the period under consideration.

Other overhead costs increased by 19.2% from SAR 9.4 million in 2014G to SAR 11.2 million in 2015G. This was due to increase in value of annual insurance premiums on goods by insurance companies, in line with the growth rate in volume of properties, along with incurred consultancy fees related to providing advice and training required for using equipment recently installed in order to produce new products.

Other overhead cost as a percentage of revenue remained relatively stable at approximately 2.0% across the period from 2013G to 2015G.

#### Net Gold Loss, Melting and Modification Cost

Net gold loss, melting and modification cost include the loss resulting from gold loss, melting and modification as is the provision for melting cost and re-manufacturing of slow-moving gold jewellery. Net gold loss, melting and modification cost increased at a CAGR of 8.3% between 2013G and 2015G from SAR 18.3 million to SAR 15.4 million.

Melting and modification cost decreased by 16.4% from SAR 18.3 million in 2013G to SAR 15.3 million in 2014G, and decreased to 3.3% of revenue. This decrease was mainly due to the decrease in net gold loss by SAR 4.0 million following the implementation of various new technological methods to capture gold residue from the production processes, including installing new AC filters from which gold dust is extracted, improved security and human body detectors for metals, as well as other controls to improve the recoverability of gold dust.

The cost of melting, modification and net gold loss slightly increased by 0.6% from SAR 15.3 million in 2014G to SAR 15.4 million in 2015G, and decreased to 2.9% of revenues. This was mainly due to an increase in net gold loss by SAR 40 thousand and in melting and modification cost by SAR 57 thousand during the same period.

#### Other Costs

Other costs mainly relate to consumables, which represent indirect materials consumed during the production processes such as chemicals, wax and rubber, inventory adjustments, which relate to the costs of conversion of gold from 24k to 21k and 18k as well as adjustments to inventory based on stock count and revaluation of silver and stones; depreciation, tools and spare parts, repairs and maintenance, and travel and communication expenses.

Other costs decreased at a CAGR of 4.0% between 2013G and 2015G. Other costs increased from SAR 14.6 million in 2013G to SAR 14.7 million in 2014G, primarily driven by an increase in inventory adjustments by SAR 1.3 million and SAR 1.9 million in 2013G and 2014G, respectively. Inventory adjustments were a result of a downward revaluation adjustment on the value of stones based on prevailing market values, which resulted from L'azurde Group's negotiations with suppliers to purchase stones at lower prices. This was partially offset by a decrease in depreciation due to a change in the depreciation estimate in 2014G (with a total effect of SAR 1.5 million).

Other costs decreased by 8.5% from SAR 14.7 million in 2014G to SAR 13.5 million in 2015G. This was due to a decline of modifications to value of goods by SAR 3.5 million as the Company did not make revaluation adjustments on stones within 2015G. This was offset by an increase in the cost of cutting and tools by SAR 416 thousand along with the increase of depreciation cost by SAR 758 thousand.

For full details on the change in depreciation estimate, please refer to the property, plant and equipment section of the management discussion and analysis.

#### 6.6.1.4 Gross Profit, by Region

**Table 6.13: Gross Profit by Region for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000     | 2013G   | 2014G   | 2015G   | YoY growth     | YoY growth     | CAGR           |
|--------------|---------|---------|---------|----------------|----------------|----------------|
|              |         |         |         | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| The Kingdom  | 114,042 | 120,460 | 145,329 | 5.6%           | 20.6%          | 12.9%          |
| Egypt        | 118,959 | 151,197 | 157,716 | 27.1%          | 4.3%           | 15.1%          |
| Qatar        | -       | -       | 1,925   | N/A            | N/A            | 0.0%           |
| UAE          | 37,992  | 29,527  | 34,355  | (22.3%)        | 16.4%          | (4.9%)         |
| Gross Profit | 270,993 | 301,183 | 339,325 | 11.1%          | 12.7%          | 11.9%          |

| SAR '000  | 2013G | 2014G | 2015G | YoY growth     | YoY growth     | CAGR           |
|---|-------|-------|-------|----------------|----------------|----------------|
|   |       |       |       | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Revenue from operations for regions as % of revenue from operations |       |       |       |                |                |                |
| The Kingdom   | 53.7% | 56.9% | 57.8% | -              | -              | -              |
| Egypt   | 68.1% | 72.3% | 70.9% | -              | -              | -              |
| Qatar   | N/A   | N/A   | 72.3% | -              | -              | -              |
| UAE   | 62.2% | 62.0% | 64.0% | -              | -              | -              |
| Total   | 60.5% | 64.3% | 64.0% | -              | -              | -              |

Source: The Company

### The Kingdom, Gross Profit

Saudi Arabian gross profit grew at a CAGR of 12.9% between 2013G and 2015G. The gross profit increased by 5.6% from SAR 114.0 million in 2013G to SAR 120.5 million in 2014G with the gross margin improving from 53.7% to 56.9%. The increase in the gross margin in 2014G was as a result of higher growth in wholesale revenue than the retail revenue, coupled with a decrease in net gold loss in the Kingdom by SAR 1.0 million (41.5%).

Saudi Arabian gross profit grew by 20.6% from SAR 120.5 million in 2014G to SAR 145.3 million in 2015G, while the Saudi Arabian gross profit margin increased from 56.9% to 57.8%, as a result of an increase in retail gross margin by 0.5% from 31.6% to 32.1%, during the same period.

### Egypt Gross Profit

Egypt gross profit grew at a CAGR of 15.1% between 2013G and 2015G. Egypt gross profit increased by 27.1% reaching SAR 151.2 million in 2014G, with gross margin improving to 72.3%, mainly as a result of the increase in average wholesale gold selling price per gramme from SAR 19.7 to SAR 20.9, coupled with more gold wholesale revenue which is characterised by higher gross margins as mentioned above.

Gross profit grew by 4.3% from SAR 151.2 million in 2014G to SAR 157.7 million. Gross profit margin decreased from 72.3% to 70.9% during the same period, as a result of an increase in retail revenue by 223%, which is characterised by low gross profit margin compared to other distribution channels.

### Qatar Gross Profit

L'azurde Group in Qatar generated gross profits of SAR 1.9 million in 2015G, with a gross profit margin of 72.3%. L'azurde Group, however, did not generate any revenues or profits in Qatar during the previous periods, as it commenced its operations in March 2015G.

### UAE, Gross Profit

UAE gross profit decreased at a CAGR of 4.9% between 2013G and 2015G. UAE gross profit decreased by 22.3% from SAR 38.0 million in 2013G to SAR 29.5 million in 2014G, with gross margin decreasing slightly from 62.2% in 2013G to 62.0% in 2014G, as the result of faster growth in retail sales, in connection with the opening of the second retail shop located in Abu Dhabi in 2014G. The retail business is characterised by lower gross profit margins, as the value of gold is included from revenue and cost of sales, requiring the customers to pay for the total jewellery value in cash. In contrast, wholesale jewellery sales exclude the value of gold from both revenue and cost of sales, as customers reimburse the value of gold in physical gold or its equivalent in pure 24k gold, which leads to a higher gross margin.

UAE gross profit grew by 16.4% from SAR 29.5 million in 2014G to SAR 34.4 million in 2015G, with an increase in the gross profit margin from 62.0% to 64.0%, due to a decline in sales related to gold chains which have a low gross margin compared to other products.



## The Kingdom Gross Profit by Distribution Channel

**Table 6.14: Saudi Arabia Gross Profit by Distribution Channel for the Years Ended 31 December 2013G, 2014G and 2015G**

|                   | 2013G   | 2014G   | 2015G   | YoY growth     | YoY growth     | CAGR           |
|-------------------|---------|---------|---------|----------------|----------------|----------------|
|                   |         |         |         | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Wholesale gold    | 92,299  | 99,355  | 117,987 | 7.6%           | 18.8%          | 13.1%          |
| Wholesale diamond | 46      | 135     | 1,225   | 193.5%         | 807.4%         | 416.0%         |
| Total wholesale   | 92,345  | 99,490  | 119,212 | 7.7%           | 19.8%          | 13.6%          |
| Retail            | 19,766  | 21,181  | 23,285  | 7.2%           | 9.9%           | 8.5%           |
| Other sales       | 1,930   | (212)   | 2,833   | (111.0%)       | (1436.1%)      | 21.1%          |
| Total             | 114,041 | 120,459 | 145,329 | 5.6%           | 20.6%          | 12.9%          |
| Gross margin%     |         |         |         |                |                |                |
| Wholesale gold    | 72.4%   | 73.5%   | 72.0%   | –              | –              | –              |
| Wholesale diamond | 17.2%   | 22.7%   | 20.9%   | –              | –              | –              |
| Total wholesale   | 72.2%   | 73.3%   | 70.3%   | –              | –              | –              |
| Retail            | 25.8%   | 31.6%   | 32.1%   | –              | –              | –              |
| Others            | 24.9%   | (2.4%)  | 30.8%   | –              | –              | –              |
| Total             | 53.7%   | 56.9%   | 57.8%   | –              | –              | –              |

Source: The Company

### Gross Profit from Wholesale Gold

Wholesale gold gross profit grew at a CAGR of 13.1% between 2013G and 2015G. Wholesale gold gross profit increased by 7.6% from SAR 92.3 million in 2013G to SAR 99.4 million in 2014G with the gross margin improving from 72.4% in 2013G to 73.5% in 2014G. This increase was driven mainly by the decrease in net gold loss by 41.5% (SAR 1.0 million) as part of the strict measures taken by L'azurde Group to minimise gold dust leakage and loss during the production processes. Saudi Arabian wholesale gold gross profit increased by 18.8% from SAR 99.4 million in 2014G to SAR 118.0 million in 2015G. This was slightly offset by a decline in Saudi Arabian wholesale gold gross profit from 73.5% to 72.0% during the same period.

### Gross Profit from Wholesale Diamond

Wholesale Diamond gross profit amounted to SAR 46 thousand in 2013G and increased by 193.5% to SAR 135 thousand in 2014G, with gross margin improving from 17.2% in 2013G to 22.7% in 2014G as a result of the ramp-up in operations of Kenaz, the new diamond jewellery product line.

Wholesale diamond gross profit increased by 804.1% from SAR 135.0 thousand in 2014G to SAR 1.2 million in 2015G as a result of increased operations in relation to wholesale diamond, supported by increased investments in this sector by hiring new sales officers, while gross profit margin decreased from 22.7% in 2014G to 20.9% in 2015G due to special discounts provided to some customers in order to achieve higher sales.

### Gross Profit from Retail

Retail gross profit increased by 7.2% from SAR 19.8 in 2013G to SAR 21.2 million in 2014G, with gross margin increasing from 25.8% in 2013G to 31.6% in 2014G, mainly due to an increase in the sales mix of diamond jewellery retail sales versus gold, and an increase in retail gold gross margin to 13.9% with the increase in selling prices for retail gold jewellery.

Retail gross profit continued to increase by 9.9% from SAR 21.2 million in 2014G to SAR 23.3 million in 2015G, due to a decrease in discounts which in turn resulted in an increase in gross profit margin from 31.6% in 2014G to 32.1% in 2015G.

### Other Gross Profit

In 2014G, other gross profit decreased by 111.0% from SAR 1.9 million in 2013G to a loss of SAR 212 thousand in 2014G due to recording a provision for slow-moving stones of SAR 2.4 million in diamond workshop operations.



Other gross profit increased after a loss of SAR 212.0 in 2014G, reaching a profit of SAR 2.8 million in 2015G, due to not recording any provisions for stones. This, in turn, resulted in an increase of gross profit margin from -2.4% in 2014G to 30.8% in 2015G.

#### Egypt Gross Profit by Distribution Channel

**Table 6.15: Egypt Gross Profit by Distribution Channel for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000          | 2013G   | 2014G   | 2015G   | YoY growth     | YoY growth     | CAGR           |
|-------------------|---------|---------|---------|----------------|----------------|----------------|
|                   |         |         |         | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Wholesale gold    | 115,968 | 148,019 | 151,981 | 27.6%          | 2.7%           | 14.5%          |
| Wholesale diamond | 2,990   | 2,578   | 2,904   | (13.8%)        | 12.6%          | (1.4%)         |
| Total wholesale   | 118,958 | 150,597 | 154,885 | 26.6%          | 2.8%           | 14.1%          |
| Retail            | -       | 600     | 2,831   | N/A            | 371.8%         | N/A            |
| Total             | 118,958 | 151,197 | 157,716 | 27.1%          | 4.3%           | 15.1%          |
| Gross margin%     |         |         |         |                |                |                |
| Wholesale gold    | 71.0%   | 75.2%   | 74.1%   | -              | -              | -              |
| Wholesale diamond | 26.5%   | 26.0%   | 30.5%   | -              | -              | -              |
| Total wholesale   | 68.1%   | 72.9%   | 72.2%   | -              | -              | -              |
| Retail            | N/A     | 24.8%   | 36.1%   | -              | -              | -              |
| Total             | 68.1%   | 72.3%   | 70.9%   | -              | -              | -              |

Source: The Company

#### Gross Profit from Wholesale Gold

Wholesale gold gross profit grew at a CAGR of 14.5% between 2013G and 2015G. Wholesale gold gross profit further increased by 27.6% from SAR 116.0 million in 2013G to SAR 148.0 million in 2014G with the gross margin improving from 71.0% to 75.2%. The increase in gross margin was driven mainly by the decrease in net gold loss by 46.3% (SAR 2.1 million) as part of the strict measures taken by L'azurde Group to minimise gold dust leakage and loss during the production processes.

Wholesale gold gross profit increased by 2.7% in 2015G from SAR 148.0 million in 2014G to SAR 152.0 million in 2015G driven by an increase in the revenue of wholesale gold. The profit margin slightly decreased from 75.2% in 2014G to 74.1% in 2015G due to an increase in labour costs associated with the increase of wholesale gold production.

#### Gross Profit from Wholesale Diamond

Wholesale diamond gross profit decreased by 13.8% from SAR 3.0 million in 2013G to SAR 2.6 million in 2014G, in line with a decrease in revenue for the period under consideration. In 2014G, gross margin remained relatively stable at approximately 26%.

Wholesale diamond gross profit increased by 12.6%, reaching SAR 2.9 million in 2015G due to a decline in raw material costs by 10.0% compared to a decline in revenues by 4.1%. This resulted in an increase of profit margin from 26.0% in 2014G to 30.5% in 2015G.

#### Gross Profit from Retail

Retail gross profit for the newly opened store in Egypt amounted to SAR 0.6 million in 2014G, and increased to SAR 2.8 million in 2015G, with gross profit margin of 24.8% in 2014G to 36.1% in 2015G, as a result of an increase in diamond retail revenue which is characterised by higher profit margin compared to gold retail revenue, and supported by the opening of Mall of Arabia showroom during the same period.

#### Qatar Gross Profit by Distribution Channel

L'azurde Group in Qatar generated gross profits of SAR 1.9 million in 2015G with gross profit margin of 72.3% during the same period. L'azurde Qatar, however, did not generate any revenues or profits during the previous periods as it started operations in March 2015G.

## UAE Gross Profit by Distribution Channel

**Table 6.16: UAE Entities Gross Profit by Distribution Channel for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000       | 2013G  | 2014G  | 2015G  | YoY growth<br>2013G<br>2014G | YoY growth<br>2014G<br>2015G | CAGR<br>2013G<br>2015G |
|----------------|--------|--------|--------|------------------------------|------------------------------|------------------------|
| Wholesale gold | 37,806 | 28,525 | 33,567 | (24.5%)                      | 17.7%                        | (5.8%)                 |
| Retail         | 186    | 1,001  | 788    | 438.2%                       | (21.3%)                      | 105.8%                 |
| Total          | 37,992 | 29,526 | 34,355 | (22.3%)                      | 16.4%                        | (4.9%)                 |
| Gross margin%  |        |        |        |                              |                              |                        |
| Wholesale gold | 62.8%  | 64.9%  | 67.3%  | –                            | –                            | –                      |
| Retail         | 21.8%  | 27.3%  | 20.5%  | –                            | –                            | –                      |
| Total          | 62.2%  | 62.0%  | 64.0%  | –                            | –                            | –                      |

Source: The Company

### Gross Profit from Wholesale Gold

Wholesale gold gross profit grew at a CAGR of 5.8% between 2013G and 2015G.

Gross profit from wholesale gold decreased by 24.5% from SAR 37.8 million in 2013G to SAR 28.5 million in 2014G, in line with a decrease in sales growth rate by 26.2% during this period.

Wholesale gold gross profit increased by 17.7%, reaching SAR 33.6 million in 2015G, in line with the increase in revenue growth by 12.3% during this period.

### Gross Profit from Retail

Retail gross profit grew at a CAGR of 105.8% between 2013G and 2015G. Retail gross profit increased by 438.2% from SAR 186 thousand in 2013G to SAR 1.0 million in 2014G, with gross margin increasing from 21.8% to 27.3%. The increase in gross margin was driven by the opening of a second store in Abu Dhabi which mainly sells diamond jewellery.

Retail gross profit declined by 21.3% from SAR 1.0 million in 2014G to SAR 0.8 million in 2015G, while the gross profit margin declined to 20.6% during the same period. This was due to the closure of Abu Dhabi showroom at the end of 2015G.

## 6.6.1.5 Selling and Marketing Expenses

**Table 6.17: Selling and Marketing (S&M) Expenses for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                           | 2013G   | 2014G   | 2015G   | YoY growth     | YoY growth     | CAGR           |
|------------------------------------|---------|---------|---------|----------------|----------------|----------------|
|                                    |         |         |         | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Advertising                        | 18,049  | 26,081  | 27,540  | 44.5%          | 5.6%           | 23.5%          |
| Promotion and Turnover Bonus       | 13,974  | 14,661  | 15,025  | 4.9%           | 2.5%           | 3.7%           |
| Stone Removal and Scrap collection | 23,246  | 23,443  | 31,992  | 0.8%           | 36.5%          | 17.3%          |
| Employee Costs                     | 28,661  | 34,903  | 40,678  | 21.8%          | 16.5%          | 19.1%          |
| Rental Expenses                    | 5,285   | 7,728   | 9,114   | 46.2%          | 17.9%          | 31.3%          |
| Other Overheads                    | 5,377   | 6,390   | 7,077   | 18.8%          | 10.8%          | 14.7%          |
| Bad Debts                          | 8,613   | (1,552) | (5,175) | (118.0%)       | 233.4%         | N/A            |
| Other expenses                     | 8,594   | 9,911   | 11,151  | 15.3%          | 12.5%          | 13.9%          |
| Total S&M Expenses                 | 111,799 | 121,565 | 137,402 | 8.7%           | 13.0%          | 10.9%          |
| KPIs                               |         |         |         |                |                |                |
| Headcount                          | 211     | 227     | 251     | 16             | 24             | 40             |

| SAR '000                                | 2013G | 2014G  | 2015G  | YoY growth     | YoY growth     | CAGR           |
|---|-------|--------|--------|----------------|----------------|----------------|
|   |       |        |        | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Average annual employee cost (SAR '000) | 135.8 | 153.8  | 162.1  | 17.9           | 8.3            | 26.2           |
| As % of revenue from operations         |       |        |        |                |                |                |
| Advertising                             | 4.0%  | 5.6%   | 5.2%   | -              | -              | -              |
| Promotion and Turnover Bonus            | 3.1%  | 3.1%   | 2.8%   | -              | -              | -              |
| Stone Removal and Scrap collection      | 5.2%  | 5.0%   | 6.0%   | -              | -              | -              |
| Employee Costs                          | 6.4%  | 7.5%   | 7.7%   | -              | -              | -              |
| Rents                                   | 1.2%  | 1.6%   | 1.7%   | -              | -              | -              |
| Other Overheads                         | 1.2%  | 1.4%   | 1.3%   | -              | -              | -              |
| Bad Debts                               | 1.9%  | (0.3%) | (1.0%) | -              | -              | -              |
| Other expenses                          | 1.9%  | 2.1%   | 2.1%   | -              | -              | -              |
| Total S&M expenses                      | 25.0% | 26.0%  | 25.9%  | -              | -              | -              |

Source: The Company

### Advertising

Advertising expenses relate to end consumer advertising and involves activities such as promotions, contracts with celebrities, hiring brand ambassadors, airing TV commercials, use of media and branding services as well as public relation campaigns and consulting services in relation to developing L'azurde brand. Advertising expenses increased at a CAGR of 23.5% between 2013G and 2015G from SAR 18.0 million to SAR 27.5 million.

Advertising expenses increased by 44.5% from SAR 18.0 million in 2013G to SAR 26.1 million in 2014G primarily driven by the renewal of certain contracts with celebrity brand ambassadors, increased frequency of road shows and increased trade marketing activities. Advertising expenses increased at a slower rate in 2015G by 5.6% reaching to SAR 27.5 million compared to 2014G from SAR 26.1 million due to not contracting with new celebrity brand ambassadors. Accordingly, advertising expenses as a percentage of revenue increased from 4.0% and 5.3% in 2013G and 2014G, respectively, then slightly decreased to 5.2% in 2015G.

### Promotion and Turnover Bonus

Promotion and turnover bonus expenses are mainly related to promotional activities and incentives to gold wholesale customers to increase sales. Turnover bonuses are given to customers who achieve their agreed sales target. Promotion and turnover bonus increased at a CAGR of 3.7% from SAR 14.0 million in 2013G to SAR 15.0 million in 2015G due to higher sales.

Promotion and turnover bonus expenses increased by 4.9% SAR from SAR 14.0 million in 2013G to SAR 14.6 million in 2014G, as a result of the significant growth witnessed in the gold wholesale for the period under consideration. Promotion and turnover bonus expenses increased at a slower rate of 2.5% in 2015G reaching SAR 15.0 million driven by the higher growth in gold wholesale and the higher target required to be achieved by agents to receive the incentives.

Promotion and turnover bonus expenses as a percentage of revenue increased from 3.1% in both 2013G and 2014G, then decreased to 2.8% in 2015G.

### Stone Removal and Scrap Collection Cost

Stone removal and scrap collection costs mainly relate to the cost of removing stones from jewellery pieces collected from customers in order to be able to melt and then use in the production processes. Scrap collection costs relate to the conversion costs incurred to change scrap gold collected from customers into the standard purity needed for production. Below are the details of the main items related to stone removal and scrap collection cost.

**Table 6.18: Stone Removal and Scrap Collection Cost for Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                                      | 2013G  | 2014G  | 2015G  | YoY growth    | YoY growth    | CAGR          |
|---|--------|--------|--------|---------------|---------------|---------------|
|   |        |        |        | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Stone Removal Cost                            | 5,738  | 7,269  | 10,232 | 26.7%         | 40.8%         | 33.5%         |
| Expenses of Converting Scrap Gold             | 17,508 | 16,174 | 21,761 | (7.6%)        | 34.5%         | 11.5%         |
| Total Stone Removal and Scrap Collection Cost | 23,246 | 23,443 | 31,992 | 0.8%          | 36.5%         | 17.3%         |

Source: The Company

Stone removal and scrap collection cost increased at a CAGR of 17.3% from 23.2 million in 2013G to SAR 32.0 million in 2015G. This cost increased by 0.8% from SAR 23.2 million in 2013G to SAR 23.4 million in 2014G in line with the revenue growth rate during the same period. Stone removal and scrap collection cost increased by 36.5% from SAR 23.4 million in 2014G to SAR 32.0 million in 2015G as a result of an increase in the percentage of stones in the jewellery, combined with an increase in pieces collected. Accordingly, stone removal cost and scrap collection cost as a percentage of revenue increased from 5.2% in 2014G to 6.0% in 2015G.

### Employee Costs

Employee costs include basic salaries, bonuses, and employee benefits including housing allowance, end of service benefits, transportation allowance, sales commission and other benefits for S&M staff. Employee costs increased at a CAGR of 19.1% between 2013G and 2015G. Below are the details of the main items related to employee expenses.

**Table 6.19: Employee Expenses for Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                            | 2013G  | 2014G  | 2015G  | YoY growth    | YoY growth    | CAGR          |
|-------------------------------------|--------|--------|--------|---------------|---------------|---------------|
|                                     |        |        |        | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
| Basic Salary                        | 9,749  | 11,077 | 12,552 | 13.6%         | 13.3%         | 13.5%         |
| Bonus                               | 1,848  | 2,666  | 2,947  | 44.3%         | 10.5%         | 26.3%         |
| Housing Allowance                   | 1,714  | 2,048  | 2,256  | 19.5%         | 10.2%         | 14.7%         |
| Costs of End-of-Service Indemnities | 1,123  | 1,515  | 1,852  | 34.9%         | 22.2%         | 28.4%         |
| Other                               | 3,890  | 5,716  | 6,276  | 46.9%         | 9.8%          | 27.0%         |
| Sales Commission                    | 10,339 | 11,881 | 14,794 | 14.9%         | 24.5%         | 19.6%         |
| Total Employee Expenses             | 28,664 | 34,903 | 40,678 | 21.8%         | 16.5%         | 19.1%         |

Source: The Company

Employee costs increased by 21.8% from SAR 28.7 million in 2013G to SAR 34.9 million in 2014G. The increase was driven by the addition of 16 employees to the S&M employee headcount, from 211 employees in 2013G to 227 employees in 2014G, coupled with a further increase in the average annual employee cost from SAR 135.8 thousand in 2013G to SAR 153.8 thousand in 2014G.

Employee expenses increased by 16.5% from SAR 34.9 million in 2014G to SAR 40.7 million in 2015G, as a result of the addition of 24 employees to the S&M employee headcount, from 227 employees in 2014G to 251 employees in 2015G. This increase was coupled with a further increase in the average annual cost per employee from SAR 153.8 thousand in 2014G to SAR 162.2 thousand in 2015G.

Accordingly, employee costs as a percentage of revenue increased from 6.4% in 2013G to 7.1% in 2014G and to 7.7% in 2015G, in line with the increase in the number of employees over the period under analysis.

## Rents

Rental expenses increased at a CAGR of 31.3% between 2013G and 2015G. It increased by 46.2% from SAR 5.3 million in 2013G to SAR 7.7 million, due to the opening of three new retail outlets in 2014G (one in each in the Kingdom, UAE and Egypt). However, the increase was slightly offset by the closure of the La Premiere store in the Kingdom.

Rent expenses increased by 17.9% from SAR 7.7 million in 2014G to SAR 9.1 million in 2015G due to opening three new stores in 2015G (Arab Mall showroom in Egypt, Panorama Mall showroom and Al Nakheel store in the Kingdom). Given the above, rental expenses as a percentage of revenue increased from 1.1% in 2013G to 1.6% and 1.7% in 2014G and 2015G, respectively, in line with the increase in number of stores.

## Other Overheads

Other overheads mainly consist of recruitment, government fees, insurance of manufactured goods, utilities, shipping and consulting expenses. Other overhead costs increased at a CAGR of 14.7% between 2013G and 2015G.

Other overheads increased by 18.8% from SAR 5.4 million in 2013G to SAR 6.4 million in 2014G, and therefore increased as a percentage of revenue from 1.2% to 1.4%. This increase was mainly due to higher gold shipment expenses following an increase in sales volume.

Other overheads increased by 10.8% from SAR 6.4 million in 2014G to SAR 7.1 million in 2015G. However it decreased by 1.3% of revenues.

## Bad Debts

Bad debt expense represents management's estimate of the amount required during the year to support the provision for doubtful debts after considering the ageing profile, customer and country risk plus any other specific risks. During 2014G, there was an excess of bad debt provisions due to an increase in the collection of previously written off bad debts as well as changes in management's estimate of certain risks, which led to reducing the provision and recording an income of SAR 1.6 million. In 2015G, collection of previously written-off debt increased, resulting in a decrease in the provision by 233.5% while generating income of SAR 5.2 million.

## Other Expenses

Other expenses mainly related to sales road show expenses, trade marketing expenses related to wholesale customers, travel expenses incurred to attend gold exhibitions, depreciation, communication and printing, repairs and maintenance, legal fees and customs duties. Other expenses increased from SAR 8.5 million in 2013G to SAR 9.9 million in 2014G.

Other expenses increased by 12.5%, reaching SAR 11.3 million in 2015G, owing to an increase of repairs and maintenance cost by SAR 274 thousand as well as the increase of communication and printing costs by SAR 188 thousand, while they stabilised as percentage of revenue around 1.9% and 2.1% between 2013G and 2015G.

### 6.6.1.6 General and Administrative Expenses

**Table 6.20: General and Administrative (G&A) Expenses for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                          | 2013G  | 2014G  | 2015G  | YoY growth     | YoY growth     | CAGR           |
|-----------------------------------|--------|--------|--------|----------------|----------------|----------------|
|                                   |        |        |        | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Salaries and employees' benefits  | 31,938 | 37,307 | 39,480 | 16.8%          | 5.8%           | 11.2%          |
| Consultancy and professional fees | 1,691  | 2,818  | 3,749  | 66.6%          | 33.0%          | 48.9%          |
| Travel                            | 1,900  | 1,917  | 1,983  | 0.9%           | 3.4%           | 2.2%           |
| Depreciation                      | 1,435  | 1,750  | 1,927  | 22.0%          | 10.1%          | 15.9%          |
| Other expenses                    | 4,316  | 5,198  | 5,306  | 20.4%          | 2.1%           | 10.9%          |
| Total G&A expenses                | 41,280 | 48,990 | 52,445 | 18.7%          | 7.1%           | 12.7%          |
| KPIs                              |        |        |        |                |                |                |
| Headcount                         | 318    | 346    | 379    | 28             | 33             | 61             |

| SAR '000                                | 2013G | 2014G | 2015G | YoY growth     | YoY growth     | CAGR           |
|---|-------|-------|-------|----------------|----------------|----------------|
|   |       |       |       | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Average annual employee cost (SAR '000) | 100.4 | 107.8 | 104.2 | 7.4            | (3.7)          | 3.7            |
| As % of revenue from operations         |       |       |       |                |                |                |
| Salaries and employees' benefits        | 7.1%  | 8.0%  | 7.4%  | –              | –              | –              |
| Consultancy and professional fees       | 0.4%  | 0.6%  | 0.7%  | –              | –              | –              |
| Travel                                  | 0.4%  | 0.4%  | 0.4%  | –              | –              | –              |
| Depreciation                            | 0.3%  | 0.4%  | 0.4%  | –              | –              | –              |
| Other expenses                          | 1.0%  | 1.1%  | 1.0%  | –              | –              | –              |
| Total                                   | 9.2%  | 10.5% | 9.9%  | –              | –              | –              |

Source: The Company

### Salaries and Employees Benefits

Salaries and employee benefits include basic salaries, bonuses, and benefits including housing allowance, end of service benefits, transportation allowance and other costs for G&A staff. Salaries and employee benefits increased at a CAGR of 11.2% from SAR 31.9 million in 2013G to SAR 39.5 million in 2015G. Salaries and employee benefits increased by 16.8% from SAR 31.9 million in 2013G to SAR 37.3 million in 2014G, driven by the increase in the number of G&A employees from 318 employees in 2013G to 346 employees in 2014G to support the growth in L'azurde Group's operations, coupled with a further increase in average annual employee cost by 7.4% from SAR 100.4 thousand in 2013G to SAR 107.8 thousand in 2014G.

Employees' salaries and benefits increased by 5.8% from SAR 37.3 million in 2014G to SAR 39.5 million in 2015G due to an increase in general and administrative staff headcount from 346 in 2014G to 379 in 2015G. This was slightly offset by a decrease in annual average cost per employee from SAR 107.8 thousand in 2014G to SAR 104.2 thousand in 2015G.

Given the above, employee costs as a percentage of revenue increased from approximately 7.1% in 2013G to 8.0% in 2014G in line with the increase in number of employees over the period, then decreased slightly to 7.4% in 2015G due to decrease of annual average cost per employee as mentioned previously.

### Consultancy and Professional Fees

Consultancy and professional fees increased at a CAGR of 48.9% between 2013G and 2015G. Consultancy and professional fees increased by 66.6% from SAR 1.7 million in 2013G to SAR 2.8 million in 2014G, mainly driven by a one-off Zakat consulting fee amounting to SAR 0.7 million.

Consultancy and professional fees increased by 33.0% from SAR 2.8 million in 2014G to SAR 3.7 million in 2015G, owing to a 70% increase of external auditing costs for financial statements. Accordingly, consultancy and professional fees as a percentage of revenue increased from 0.4% in 2013G to 0.6% and 0.7% in 2014G and 2015G, respectively.

### Travel Expenses

Travel expenses increased at a CAGR of 2.1% from SAR 1.9 million in 2013G to SAR 2.0 million in 2015G. Travel expenses remained stable around SAR 1.9 million during 2013G and 2014G, then increased by 3.4% to SAR 2.0 million in 2015G driven by more travel activity between the subsidiaries in Egypt and the GCC, and additional travel activity to jewellery fairs to continue driving sales growth and innovation. Accordingly, travel expenses remained stable as a percentage of revenue at 0.4% between 2013G and 2015G.

### Depreciation

Depreciation expense increased at a CAGR of 15.9% between 2013G and 2015G. Depreciation expense increased by 22.0% from SAR 1.4 million in 2013G to SAR 1.8 million in 2014G, due to increase of additions in rented building improvements for showrooms in the Kingdom and Egypt, in line with the increase in PP&E cost value from SAR 232.4 million in 2013G to SAR 233.2 million in 2014G.

Depreciation expense increased by 10.1% from SAR 1.8 million in 2014G to SAR 1.9 million in 2015G. Depreciation expense as a percentage of revenue ranged between 0.3% and 0.4% for the period under analysis.

### Other Expenses

Other expenses mainly comprise printing, stationery and communication, insurance, recruitment, transportations, utilities, entertainment and other miscellaneous expenses. Other expenses increased at a CAGR of 10.9% from SAR 4.3 million in 2013G to SAR 5.3 million in 2015G, primarily driven by an increase in electricity and water services and transport and insurance costs following growth in operations. Other expenses as percentage of revenue remained relatively stable at approximately 1.0% between 2013G and 2015G.

#### 6.6.1.7 Net Income Analysis

**Table 6.21: Net Income for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                        | 2013G    | 2014G    | 2015G    | YoY growth     | YoY growth     | CAGR           |
|---------------------------------|----------|----------|----------|----------------|----------------|----------------|
|                                 |          |          |          | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| Operating profit                | 117,913  | 130,628  | 149,478  | 10.8%          | 14.4%          | 12.6%          |
| Other income/(expenses), net    | (1,634)  | (3,133)  | 4,283    | 91.7%          | (236.7%)       | N/A            |
| Financial charges               | (30,191) | (27,964) | (34,896) | (7.4%)         | 24.8%          | 7.5%           |
| Income before Zakat             | 86,088   | 99,531   | 118,864  | 15.6%          | 19.4%          | 17.5%          |
| Zakat                           | (11,910) | (13,240) | (14,312) | 11.2%          | 8.1%           | 9.6%           |
| Income tax                      | -        | -        | (3,986)  | N/A            | N/A            | N/A            |
| Net income                      | 74,178   | 86,291   | 100,567  | 16.3%          | 16.5%          | 16.4%          |
| As % of revenue from operations |          |          |          |                |                |                |
| Operating profit                | 26.3%    | 27.9%    | 28.2%    | -              | -              | -              |
| Other income/(expenses), net    | (0.4%)   | (0.7%)   | 0.8%     | -              | -              | -              |
| Financial charges               | 6.7%     | 6.0%     | 6.6%     | -              | -              | -              |
| Net income                      | 16.6%    | 18.4%    | 19.0%    | -              | -              | -              |

Source: The Company

Net income increased at a CAGR of 16.4% between 2013G and 2015G. Net income increased by 16.3% from SAR 74.2 million in 2013G to SAR 86.3 million in 2014G, with an increase in the net income margin from 16.6% in 2013G to 18.4% in 2014G then to 19.0% in 2015G. Net income increased in line with the growth in operating profit, which grew at a CAGR of 12.6% between 2013G to 2015G, due to similar growth in gross profit at CAGR of 11.9%.

#### 6.6.1.8 Net Income, by Region

**Table 6.22: Net Income for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000     | 2013G  | 2014G  | 2015G   | YoY growth     | YoY growth     | CAGR           |
|--------------|--------|--------|---------|----------------|----------------|----------------|
|              |        |        |         | 2013G<br>2014G | 2014G<br>2015G | 2013G<br>2015G |
| The Kingdom  | 28,925 | 25,482 | 47,668  | (11.9%)        | 87.1%          | 28.4%          |
| Egypt        | 45,232 | 49,564 | 41,322  | 9.6%           | (16.6%)        | (4.4%)         |
| Qatar        | -      | (650)  | 202     | N/A            | (131.1%)       | N/A            |
| UAE          | 21     | 11,894 | 11,374  | 56,752.4%      | (4.4%)         | 2,231.7%       |
| Gross Profit | 74,178 | 86,291 | 100,567 | 16.3%          | 16.5%          | 16.4%          |

Source: The Company



## The Kingdom, Net Income

Net income for Saudi Arabia grew at a CAGR of 28.4% between 2013G and 2015G. Saudi Arabia's net income decreased by 11.9% from SAR 28.9 million in 2013G to SAR 25.5 million in 2014G, due to an increase in advertising expenses and provisions for doubtful debts.

In 2015G, net income increased by 87.1% to reach SAR 47.7 million in 2013G. The increase in net income is mainly due to a 21.2% increase in gold wholesale revenue by SAR 28.6 million, coupled with an increase of gold wholesale volume sold by 1,175 KG in 2014G (19.9%). In addition to an increase in diamond wholesale revenue and retail revenue by SAR 5.3 million and SAR 5.3 million, respectively. Net income margin increased from 56.9% to 57.8% as a result of an increase in retail gross margin by 0.5% from 31.6% to 32.1% during the same period.

## Egypt, Net Income

Net income for Egypt increased by 9.6% from SAR 45.2 million in 2013G to SAR 49.6 million in 2014G, due to an increase in gross profit by 27.1% to reach SAR 151.2 million in 2014G, with net income margin improving to 72.3%, mainly as a result of the increase in gold wholesale revenue which is characterised by higher net income margins as oppose to retail revenue.

Net income decreased by 16.6% from SAR 49.6 million in 2014G to SAR 41.3 million in 2015G, due to an incurred tax income in 2015G as a result of the expiration of the tax exemption period related to OroEgypt in 31 December 2014G, coupled with increased financial charges related to gold loans.

## Qatar, Net Income

L'azurde Group began its operations of gold wholesale in Qatar since March 2015G. During the nine (9) months since it started its operations, L'azurde Group was able to generated net income of SAR 202 thousand in 2015G.

## UAE, Net Income

UAE net income increased from SAR 21 thousand in 2013G to SAR 11.9 million in 2014G, due to the decrease in the provisions for doubtful debts in 2014G.

Net income decreased by 4.4% from SAR 11.9 million in 2014G to SAR 11.4 million in 2015G due to incurred losses in connection with the closing of Abu Dhabi retail store in 2015G.

### 6.6.1.9 Other Income/Expenses, Net

**Table 6.23: Other Income/Expenses, Net, for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000  | 2013G   | 2014G   | 2015G   | 2013G - 2014G | 2014G - 2015G | 2013G - 2015G |
|---|---------|---------|---------|---------------|---------------|---------------|
| Net Gains From Foreign Currency Exchange Differences          | 1,673   | 1,113   | 6,205   | (33.5%)       | 457.5%        | 92.6%         |
| Gains (Losses) on disposal of PP&E                            | (1,893) | 78      | 195     | (104.1%)      | 150.0%        | N/A           |
| Impairment of prepayments                                     | -       | (2,015) | (1,551) | N/A           | (23.0%)       | 0.0%          |
| Loss on closure of showroom                                   | -       | (2,184) | (549)   | N/A           | (74.9%)       | 0.0%          |
| Other   | (1,414) | (125)   | (16)    | (91.2%)       | (87.2%)       | (89.4%)       |
| Other income/(expenses), net                                  | (1,634) | (3,133) | 4,283   | 91.7%         | (236.7%)      | N/A           |
| KPIs  |         |         |         |               |               |               |
| Net Gains (Losses) from Foreign Currency Exchange Differences | 0.4%    | 0.2%    | 1.2%    | -             | -             | -             |
| Gain on disposal of PP&E                                      | (0.4%)  | 0.0%    | 0.0%    | -             | -             | -             |
| Impairment of prepayments                                     | 0.0%    | (0.4%)  | (0.3%)  | -             | -             | -             |
| Loss on closure of showroom                                   | 0.0%    | (0.5%)  | (0.1%)  | -             | -             | -             |
| Other costs   | (0.3%)  | (0.0%)  | (0.0%)  | -             | -             | -             |
| Other income/(expenses), net                                  | (0.3%)  | (0.7%)  | 0.8%    | -             | -             | -             |

Source: The Company

### Gain from Foreign Currency Exchange Differences, Net

Gain from foreign currency exchange differences mainly relates to receivable balances of Egyptian entities from Saudi Arabian entities in relation to intercompany trading. Gain from foreign currency exchange differences increased at a CAGR of 92.6% between 2013G and 2015G and then decreased by 33.5% from SAR 1.7 million in 2013G to SAR 1.1 million in 2014G. This fluctuation was mainly driven by the fluctuation in foreign currency exchange rates (primarily in Egyptian Pounds) resulting in translation differences when converting to Saudi Riyals.

Net gains from foreign currency exchange differences increased by approximately 457.4% from an income of SAR 1.1 million in 2014G to an income of SAR 6.2 million in 2015G, primarily driven by depreciation of the Egyptian pound against the Saudi Riyal during the same period.

### Gain/(Loss) on Disposal of PP&E

Gains on disposal of PP&E increased from a loss on disposal of SAR 1.9 million in 2013G mainly due to the write off of certain outdated machinery to a gain of SAR 78 thousand in 2014G, and then increased to a gain of SAR 195 thousand due to the write off of certain outdated machinery too.

### Impairment of Prepayments

Impairment of prepayments amounting to SAR 2.0 million in 2014G related to rent and a security deposit that was written-off after the Al Salam retail showroom contract was terminated. In 2015G, this item decreased by 23.0% reaching SAR 1.6 million, which is related to rent and prepayments that were written off after terminating the contract of the Abu Dhabi outlet in United Arab of Emirates and Kuwait venues.

### Loss on Closure of Showroom

Loss on closure of showroom amounting to SAR 2.2 million in 2014G mainly related to the loss incurred on the closure of the La Premiere retail showroom in the Kingdom in 2014G after a conscious decision was made to close the shop due to unfavourable conditions as a result of governmental construction work around the shop location. In 2015G, loss resulting from closure of showrooms decreased by 74.9%, reaching SAR 0.5 million and they are primarily related to losses sustained due to closure of the Abu Dhabi outlet in the United Arab of Emirates and Kuwait venues. Losses sustained are primarily related to costs of evacuating closed outlets and showrooms.

### Other Costs

Other costs decreased from an expense of SAR 1.4 million in 2013G to an expense of SAR 0.1 million in 2014G then to an expense of SAR 16 thousand in 2015G. These changes were mainly driven by severance pay for a former employee amounting to SAR 0.5 million in 2013G, refunded from L'azurde Group's insurance provider.

## 6.7 Consolidated Financial Position Statement

**Table 6.24: Consolidated Financial Position Statement as at 31 December 2013G, 2014G and 2015G**

| SAR '000                                   | 2013G     | 2014G     | 2015G     |
|--|-----------|-----------|-----------|
| Current assets                             | 1,323,686 | 1,571,445 | 1,692,244 |
| Non-current assets                         | 65,880    | 65,969    | 75,198    |
| Total assets                               | 1,389,566 | 1,637,414 | 1,767,442 |
| Current liabilities                        | 899,532   | 1,125,278 | 1,244,032 |
| Non-current liabilities                    | 23,740    | 28,939    | 32,389    |
| Total Liabilities                          | 923,272   | 1,154,217 | 1,276,421 |
| Total Shareholders' equity                 | 466,294   | 483,197   | 491,021   |
| Total liabilities and Shareholders' equity | 1,389,566 | 1,637,414 | 1,767,442 |
| Return On Assets                           | 5.3%      | 5.3%      | 5.7%      |
| KPIs                                       |           |           |           |
| Return on Shareholders' Equity             | 15.9%     | 17.9%     | 20.5%     |
| Short-term debt to assets                  | 58.7%     | 64.1%     | 63.1%     |
| Short-term debt to Shareholders' Equity    | 175.0%    | 217.2%    | 227.0%    |

Source: The Consolidated Audited Financial Statements

### 6.7.1.1 Current Assets

**Table 6.25: Current Assets as at 31 December 2013G, 2014G and 2015G**

| SAR '000                          | 2013G     | 2014G     | 2015G     |
|-----------------------------------|-----------|-----------|-----------|
| Cash and Cash equivalents         | 134,422   | 62,555    | 173,438   |
| Short term deposits               | 11,000    | -         | -         |
| Margin deposits                   | 117,527   | 221,063   | 116,672   |
| Accounts receivable               | 173,837   | 279,793   | 389,908   |
| Inventories                       | 849,421   | 977,530   | 975,645   |
| Prepayments and other receivables | 37,479    | 30,503    | 36,581    |
| Total current assets              | 1,323,686 | 1,571,445 | 1,692,244 |
| KPIs                              |           |           |           |
| Days sales outstanding (DSO)      | 23        | 30        | 43        |
| Days inventory outstanding (DIO)  | 122       | 138       | 144       |

Source: The Company

#### A) Cash and Cash Equivalents

Cash and cash equivalents decreased from SAR 134.4 million in 2013G to SAR 62.6 million in 2014G, driven by negative cash flow from operating activities (negative SAR 3.5 million) and financing activities (negative SAR 69.4 million), offset by cash inflow from investing activities (SAR 1.1 million). The reason behind negative cash flow from operating activities is the use of SAR 103.5 million from operating cash flows as cash collateral in order to obtain gold loans. Furthermore, the reason behind negative cash flow from financing activities is the distribution of dividends which amounted to SAR 62.8 million.

Cash and cash equivalents increased from SAR 62.6 million as at 31 December 2014G to SAR 173.4 million as at 31 December 2015G, as a result of an increase in net income after cash adjustments and a decrease in inventory compared to that in 2014G by SAR 133 million together with the positive change in cash deposits as it increased from a negative cash flow of SAR 103.5 million at 31 December 2014G to a positive cash flow of SAR 104.1 million at 31 December 2015G as a result of change in gold loans payment dates from Standard Chartered Bank.

L'azurde Group did not hold any contractually based securities or other assets whose value may be subject to fluctuation or be difficult to ascertain with certainty, significantly affecting the assessment of the Company's financial position.

#### B) Short Term Deposits

Short-term deposits, which amounted to SAR 11.0 million as at 31 December 2013G, were classified separately from cash and cash equivalents to follow accounting disclosure requirements given the nature of maturity of more than three months as of that date.

#### C) Margin Deposits

Margin deposits relate to cash margins deposited at banks as guarantees to obtain gold loans. Margin deposits increased from SAR 117.5 million as at 31 December 2013G to SAR 221.1 million as at 31 December 2014G in line with the increase in short-term gold loans during the same period coupled with the use of a gold loan swap from Standard Chartered Bank from 2013G onwards. This gold loan swap required L'azurde Group to deposit higher cash margin compared to typical locally sourced gold loans.

As at 31 December 2015G, margin deposits decreased to SAR 116.7 million due to a change in repayment dates of gold loans to Standard Chartered Bank, which required lower commissions compared to other banks, but set the margin deposits to reach 105% of loan value.

## D) Accounts Receivable

**Table 6.26: Accounts Receivable as at 31 December 2013G, 2014G and 2015G**

| SAR '000                            | 2013G    | 2014G    | 2015G   |
|-------------------------------------|----------|----------|---------|
| Trade receivables                   | 187,334  | 292,540  | 399,843 |
| Provision for doubtful debts        | (13,497) | (12,747) | (9,935) |
| Total                               | 173,837  | 279,793  | 389,908 |
| KPIs                                |          |          |         |
| Provision as % of gross receivables | 7.2%     | 4.4 %    | 2.5%    |
| DSO (Revenue including gold value)  | 23       | 30       | 43      |

Source: The Company

### Trade Receivables

Trade receivables increased from SAR 187.3 million as at 31 December 2013G to SAR 292.5 million as at 31 December 2014G mainly due to the growth in sales, coupled with slightly delayed payments resulting primarily from the political instability in certain countries. Thus, DSO increased from 23 days as at 31 December 2013G to 30 days as at 31 December 2014G.

Trade receivables increased to SAR 399.8 million in 2015G driven by the increased sales during the period. Additionally, delays in payment by some customers, due to instability in Yemen, Iraq and Libya led the DSO to increase from 30 to 43 days. Receivables accounted for 13.1%, 17.8% and 23.0% of total current assets in 2013G, 2014G and 2015G, respectively.

It should be noted that accounts receivable related to export revenues from total accounts receivable decreased from 25.7% as at 31 December 2013G to 24.3% and 17.2% as at 31 December 2014G and 2015G respectively, in line with the management policy in terms of reducing exposure to markets in politically or economically unstable regions.

**Table 6.27: Accounts Receivable as at 2013G, 2014G and 2015G**

|   | 2013G   | 2014G   | 2015G   |
|---|---------|---------|---------|
| Total Accounts Receivable                                 | 187,334 | 292,540 | 399,843 |
| Accounts Receivable related to Export Sales               | 48,205  | 70,963  | 68,790  |
| Percentage of Accounts Receivable related to Export Sales | 25.7%   | 24.3%   | 17.2%   |

Source: The Company

Accounts receivable as a percentage of revenue peaked in the months of August in 2013G, and July in 2014G and May in 2015G. This is mainly because L'azurde Group typically generates its highest sales between January and June of each year particularly in the second quarter, primarily due to increased demand for jewellery at the start of a new year after bonuses and raises have been announced, in addition to the preparation for the summer wedding season. As at December of each year, accounts receivable as a percentage of revenue, reach the lowest points driven by L'azurde Group's relatively lower sales season.

**Table 6.28: Receivables aging (including gold) as at 31 December 2013G, 2014G and 2015G**

| SAR '000                     | 0 – 60 days | 61 – 120 days | 121 – 180 days | 181 – 270 days | 271 – 365 days | More than 365 days | Total   |
|------------------------------|-------------|---------------|----------------|----------------|----------------|--------------------|---------|
| 2013G                        |             |               |                |                |                |                    |         |
| Trade Receivables            | 144,069     | 29,495        | 7,794          | 6,147          | (362)          | 192                | 187,334 |
| As a percentage of the total | 76.9%       | 15.7%         | 4.2%           | 3.3%           | (0.2%)         | 0.1%               | 100.0%  |
| 2014G                        |             |               |                |                |                |                    |         |
| Trade Receivables            | 185,573     | 75,809        | 31,158         | -              | -              | -                  | 292,540 |
| As a percentage of the total | 63.4%       | 25.9%         | 10.7%          | -              | -              | -                  | 100.0%  |
| 2015G                        |             |               |                |                |                |                    |         |

| SAR '000                     | 0 – 60 days | 61 – 120 days | 121 – 180 days | 181 – 270 days | 271 – 365 days | More than 365 days | Total   |
|------------------------------|-------------|---------------|----------------|----------------|----------------|--------------------|---------|
| Trade Receivables            | 209,584     | 109,955       | 55,376         | 20,919         | 2,874          | 1,136              | 399.843 |
| As a percentage of the total | 52.4%       | 27.5%         | 13.8%          | 5.2%           | 0.7%           | 0.3%               | 100.0%  |

Source: The Company

#### Average credit terms with customers amounted to 60 days between 2013G and 2015G.

Outstanding receivables aged from 0 to 60 days represented 76.9%, 63.4% and 52.4% of total receivables as at 31 December 2013G, 2014G and 2015G, respectively. Outstanding receivables aged between 121 and 180 days accounted for only 4.2%, 10.7% and 13.8% of total receivables as at 31 December 2013G, 2014G and 2015G, respectively. Outstanding receivables days increased to more than 60 days due to the delay in collection in 2014G and 2015G, which led an increase in account receivable days from 30 days in 2014G to 43 days in 2015G.

#### Provision for Doubtful Debts

L'azurde Group revised the provisions policy in 2013G, 2014G and 2015G whereas changes to the calculation method were made. Previously, provision estimates were based on the annual revenue, percentage of account receivables, and net income. Adjustments were made to further reflect the differences in risks between customers from the GCC and other export countries, which are characterised with higher risks due to the difficulty to peruse them legally (detailed below). This resulted in a decrease in the provision for doubtful debt as a percentage of gross receivables to 7.2%, 4.4% and 2.5% as at 31 December 2013G, 2014G and 2015G, respectively. The following table shows the movements of the provision for Doubtful Debts.

**Table 6.29: Movements of doubtful debts provision as at 31 December 2013G, 2014G and 2015G**

| SAR '000                               | 2013G    | 2014G    | 2015G              |
|--|----------|----------|--------------------|
| Balance at the beginning of the period | (10,366) | (13,497) | (12,747)           |
| Forming a provision                    | (11,808) | (8,931)  | 2,812 <sup>1</sup> |
| Used provision                         | 8,678    | 9,681    | -                  |
| Balance at the end of the period       | (13,497) | (12,747) | (9,935)            |
| As a percentage of total receivables   | 7.2%     | 4.4%     | 2.5%               |

Source: The Company

<sup>1</sup> Positive number due to collecting amounts of doubtful debts during the second half of 2015G which resulted in lower provisions for doubtful debts requested to be made on behalf of the provisions in the first half; therefore it had to be reduced with a positive number.

L'azurde Group's receivable provisioning policy is based on two main components, a general provision based on aging, which did not change across the period of 2013G to 2015G, plus a specific provision which was revised across the period based on annual revenue, receivable concentration and net income.

The general provision based on the ageing, which remained the same across the period, was applied consistently to all L'azurde Group's entities as follows:

- 25% provision for receivables outstanding for 181 to 270 days;
- 50% provision for receivables outstanding for 271 to 360 days;
- 75% provision for receivables outstanding for 361 to 540 days; and
- 100% provision for receivables outstanding for more than 540 days.
- As at 31 December 2013G, specific provision was calculated for the highest of the following 2 amounts:
  - 50% of highest client receivable balance; or
  - 15% of sum of all client receivable balances whose individual values are greater than or equal to 30 kg of gold.
- As at 31 December 2014G: provision was made specifically to match the sum of receivable balances with an individual value greater than or equal to 10% of L'azurde Group's expected net income according to the following customer groups to link the provisions for doubtful debts and its impact on the net income:
  - 15% of export customers; or
  - 7.5% of local customers.

- As at 31 December 2015G: provision was made specifically to match the sum of receivable balances with an individual value greater than or equal to 10% of L'azurde Group's expected net income according to the following customer groups, and that is to reflect the differences in risks between export customers from GCC and other export countries that are characterised with higher risks:
  - 15% of export customers;
  - 10% of GCC customers; or
  - 7.5% of local customers.

## E) Inventories

**Table 6.30: Inventories as at 31 December 2013G, 2014G and 2015G**

| SAR '000  | 2013G   | 2014G    | 2015G    |
|---|---------|----------|----------|
| By component  |         |          |          |
| Gold on hand, on consignment and in banks                         | 686,606 | 837,367  | 835,470  |
| Diamonds, stones and pearls                                       | 138,768 | 139,238  | 137,782  |
| Gold with suppliers   | 16,768  | -        | -        |
| Materials and accessories   | 16,185  | 15,684   | 19,729   |
| Gross inventory   | 858,327 | 992,289  | 992,981  |
| Less: provision for melting costs and slow-moving inventory items | (8,907) | (14,759) | (17,336) |
| Net inventory   | 849,421 | 977,530  | 975,645  |
| By stage of completion:   |         |          |          |
| Finished goods  | 521,895 | 621,209  | 605,458  |
| Raw material  | 333,029 | 368,671  | 385,298  |
| Work in progress  | 3,403   | 2,409    | 2,225    |
| Gross inventory   | 858,327 | 992,289  | 992,981  |
| Less: provision for melting costs and slow-moving inventory items | (8,907) | (14,759) | (17,336) |
| Net inventory   | 849,421 | 977,530  | 975,645  |
| KPIs  |         |          |          |
| DIO (Cost of sales including gold value)                          | 122     | 138      | 144      |

Source: The Company

Net inventories increased from SAR 849.4 million as at 31 December 2013G to SAR 977.5 million as at 31 December 2014G, mainly as a result of an increase in finished goods by SAR 99.3 million and raw materials by SAR 35.6 million, which was offset by an increase in provision by SAR 5.9 million. L'azurde Group began building its inventory levels to meet the expected increase in demand for jewellery in the first half of 2015G, and following a strong advertising campaign in December 2014G.

As at 31 December 2015G, net inventories slightly decreased to SAR 975.6 million mainly as a result of a decrease in finished goods by SAR 15.7 million, due to an increase in demand in the first half of 2015G. This was offset by an increase in raw material of around SAR 16.6 million, from SAR 368.7 million as at 31 December 2014G to SAR 385.3 million as at 31 December 2015G.

## By Component

### Gold on Hand, on Consignment and in Banks

Gold on hand, on consignment and in banks was mainly related to finished goods, raw material, and work in progress which used in production process; gold provided to suppliers on consignment under operations, in addition to quantities held with banks as margin to form collateral for gold loans. As at 31 December 2013G, 2014G and 2015G, raw gold value provided by L'azurde Group for banks as margin to form collateral for gold loans, according to the terms of the loan agreement, amounted to SAR 361.4 thousand, SAR 317.0 thousand and SAR 310.0 thousand respectively. Gold on hand increased from SAR 666.3 million as at 31 December 2013G to SAR 817.1 million as at 31 December 2014G, in line with the increase in production in 2014G. In 2015G, gold on hand increased to reach SAR 820.0 million as a result of increased production.

Gold on consignments slightly decreased to SAR 20.0 million in 2013G to SAR 19.9 million as at December 2014G, and then further decreased to SAR 15.2 million as at 31 December 2015G due to the reduced gold quantity offered to suppliers for operations.

#### **Diamonds, Stones and Pearls**

Diamonds, stones and pearls increased from SAR 138.8 million as at 31 December 2013G to SAR 139.2 million as at 31 December 2014G. The increase was the result of L'azurde Group's anticipation of an increase in revenue over the period. In addition to opening a new diamond factory in Egypt in 2012G necessitated an inventory in the first three years of operations. The value of diamonds, stones and pearls decreased to SAR 137.8 million as at 31 December 2015G due to the management's decision to use the currently available inventory instead of purchasing new goods.

#### **Gold with Suppliers**

Gold with suppliers relates to gold given to suppliers on consignment for the production of certain specialised products. Its value was SAR 16.8 million as at 31 December 2013G. As at 31 December 2014G and 2015G, it amounted to nil due to a reclassification, which saw the balance included within the gold on hand, on consignment and in banks. The reclassification was implemented given gold with suppliers, in its nature, represents gold on consignment.

#### **Materials and Accessories**

Materials and accessories mainly relate to processing materials, chemicals and consumables. Materials and accessories accounted for 1.9%, 1.6% and 2.0% of total net inventory across the period under analysis.

### **By Stage of Completion**

#### **Finished Goods**

Finished goods increased from SAR 521.9 million as at 31 December 2013G to SAR 621.2 million as at 31 December 2014G due to a build-up to meet expected demand in the first quarter of 2015G as a result of launching an advertising campaign. Finished goods decreased to SAR 605.5 million as at 31 December 2015G due to a decrease in gold prices over the period.

#### **Raw Material**

Raw material includes pure gold, diamonds, stones, pearls, chemicals, alloys and other materials. Raw material increased from SAR 333.0 million as at 31 December 2013G to SAR 368.7 million as at 31 December 2014G in line with the anticipated increase in production. As at 31 December 2015G, Raw material continued to increase to SAR 385.3 million in line with the anticipated increase in sales in addition to melting finished goods made of diamonds and turning them into raw material.

#### **Work in Progress**

Work in progress consists mainly of gold and diamond jewellery under production and amounted to SAR 3.4 million, SAR 2.4 million and SAR 2.2 million, as at 31 December 2013G, 2014G and 2015G, respectively. Work in progress slightly decreased from 0.4% as at 31 December 2013G to 0.2% as at 31 December 2014G and 2015G as a percentage of total inventory over the period under analysis due to finishing and closing all open production orders in the last few days of the financial year.

#### **Provision for Melting Costs and Slow-Moving Items**

**Table 6.31: Movement of Melting Costs and Slow-Moving Items provision as at 31 September 2013G, 2014G and 2015G**

| SAR '000                               | 2013G   | 2014G   | 2015G   |
|--|---------|---------|---------|
| Balance at the beginning of the period | 8,412   | 8,907   | 14,759  |
| Forming a provision                    | 9,845   | 10,868  | 10,925  |
| Used provision                         | (9,351) | (5,016) | (8,348) |
| Balance at the end of the period       | 8,907   | 14,759  | 17,336  |

Source: The Company



A suitable provision shall be set aside for slow-moving items and to cover expected melting costs for all unsaleable goods that are re-melted to be reused in production according to a new policy adopted by the Group in January 2013G, as follows:

**First: General provision according to the product type based on historic rates of melting within the last years:**

|             | 21k Sets | 21k Nawaim | Bangles | 18k | Chains |
|-------------|----------|------------|---------|-----|--------|
| The Kingdom | 8%       | 8%         | 14%     | 12% | 1%     |
| Egypt       | 5%       | 5%         | 5%      | 5%  | -      |

Source: The Company

**Second: Provision as per inventory ages**

| Age in days          | 0-180 | 181-270 | 271-360 | 361-540 days | >540 |
|----------------------|-------|---------|---------|--------------|------|
| Provision percentage | -     | 10%     | 35%     | 65%          | 100% |

Source: The Company

Provision is calculated through using the previous percentages multiplied by the value of inventory. Moreover, provision for melting costs and slow-moving items increased from SAR 8.9 million as at 31 December 2013G to SAR 14.8 million as at 31 December 2014G, mainly as a result of the change in the provisioning estimate at the end of 2013G. As at 31 December 2015G, provision for melting costs and slow-moving items increased to SAR 17.3 million as a result of the same abovementioned reasons.

**DIO (Days Inventory Outstanding)**

DIO increased from 122 days as at 31 December 2013G to 138 days as at 31 December 2014G as L'azurde Group started to stock up on its inventory to account for the expected increase in sales driven by the anticipated increased demand due to the strong advertising campaign. DIO increased to 144 days as at 31 December 2015G due to a decrease in cost of sales resulting from decrease of gold price on 31 December 2015G more than that on 31 December 2014G.

**F) Prepayments and Other Receivables**

**Table 6.32: Prepayments and Other Receivables as at 31 December 2013G, 2014G and 2015G**

| SAR '000              | 2013G  | 2014G  | 2015G  |
|-----------------------|--------|--------|--------|
| Prepayments           | 17,220 | 14,807 | 16,732 |
| Advances to suppliers | 14,550 | 10,283 | 13,329 |
| Advances to employees | 2,876  | 2,683  | 3,121  |
| Other receivables     | 2,833  | 2,730  | 3,398  |
| Total                 | 37,479 | 30,503 | 36,581 |

Source: The Company

Prepayments and other receivables, which mainly consist of prepaid expenses, advances to suppliers and advances to employees, decreased from SAR 37.5 million as at 31 December 2013G to SAR 30.5 million as at 31 December 2014G, due to the decrease in advances to suppliers by SAR 4.3 million and prepayments by SAR 2.4 million. As at 31 December 2015G, prepayments and other receivables increased to SAR 36.6 million mainly driven by an increase in prepayments of approximately SAR 1.9 million, in addition to an increase in advances to suppliers by approximately SAR 3.0 million as at 31 December 2015G.

**Prepayments**

Prepayments decreased from SAR 17.2 million as at 31 December 2013G to SAR 14.8 million as at 31 December 2014G, mainly due to the decrease in the Saudi Arabian retail prepaid rent by SAR 2.5 million, due to the shutdown of Al Salam store in the Kingdom (having a negative impact of SAR 1.4 million). Prepayments as at 31 December 2015G increased by SAR 1.3 million to SAR 16.7 million due to prepaid rents of two retail stores opened in 2015G (in the Kingdom and Egypt).

**Advances to Suppliers**

Advances to suppliers are related to the Company's purchase of fixed assets and raw material. Advances to suppliers decreased from SAR 14.6 million as at 31 December 2013G to SAR 10.3 million as at 31 December 2014G due to a decrease from the Saudi Arabian wholesale and the Saudi Arabian retail as the divisions requirements were purchased without having to pay prepayments as the case in

the previous situation, offset by an increase from L'azurde Egypt for the period under consideration. As at 31 December 2015G, advances to suppliers increased by SAR 3.0 million to reach SAR 13.3 million due to expansion of wholesale operations in the Kingdom and Egypt.

#### Advances to Employees

Advances to employees decreased from SAR 2.9 million as at 31 December 2013G to SAR 2.7 million as at 31 December 2014G. Advances to employees increased by 0.4 million to SAR 3.1 million as at 31 December 2015G as a result of an increase in emergency advances of approximately SAR 0.4 million, offset by a decrease in car advances of approximately SAR 0.1 million during the same period.

#### Other Receivables

Other receivables mainly include advances, prepaid rents to the Company's branches and showrooms as well as refundable deposits that are paid to government bodies, margins of banking letter of guarantee and accrued revenue. Other receivables decreased by SAR 0.1 million from SAR 2.8 million as at 31 December 2013G to SAR 2.7 million as at 2014G, mainly due to refunding some deposits paid to government bodies as they served their purpose. As at 31 December 2015G, other receivables increased by approximately SAR 0.6 million to SAR 3.4 million due to an increase in banking letters of guarantees related to importing gold from Egypt.

**Table 6.33: Non-Current Assets as at 31 December 2013G, 2014G and 2015G**

| SAR '000                 | 2013G  | 2014G  | 2015G  |
|--------------------------|--------|--------|--------|
| PP&E                     | 65,580 | 65,669 | 75,198 |
| Intangible assets        | 300    | 300    | –      |
| Total non-current assets | 65,880 | 65,969 | 75,198 |

Source: The Company

Non-current assets comprised property and equipment and intangible assets. The increase in non-current assets from SAR 65.9 million as at 31 December 2013G to SAR 66.0 million at 31 December 2014G and to SAR 75.2 million as at 31 December 2015G was due to the increase in property and equipment by SAR 9.5 million over the period, the reasons for this variance are detailed below:

#### G) Property, Plant and Equipment (PP&E)

**Table 6.34: Property, Plant and Equipment (PP&E) Movement as at 31 December 2013G, 2014G and 2015G**

| SAR '000                            | 2013G    | 2014G   | 2015G   |
|-------------------------------------|----------|---------|---------|
| Net book value at beginning of year | 64,283   | 65,580  | 65,669  |
| Additions                           | 17,773   | 11,374  | 23,405  |
| Disposals                           | (4,800)  | (1,355) | (3,967) |
| Depreciation                        | (11,677) | (9,930) | (9,901) |
| Net book value at end of year       | 65,580   | 65,669  | 75,198  |

Source: The Company

#### H) Useful Life of Principal Classes of Assets

**Table 6.35: Useful Life of Principal Classes of Assets as at 31 December 2015G**

| Asset type                   | Number of years  |
|------------------------------|--|
| Buildings                    | 50 years   |
| Machinery & equipment        | 10 years   |
| Furniture & fixture          | 7 years  |
| Motor vehicles               | 4 years  |
| Office equipment             | 2-7 years  |
| Tools, dies and other assets | 4-7 years  |
| Leasehold improvements       | Useful life of the improvements or the term of the lease, whichever is shorter |

Source: Consolidated Audited Financial Statements

# I) Property, Plant and Equipment by Nature

**Table 6.36: Property, Plant and Equipment by Nature as at 31 December 2013G, 2014G and 2015G**

| SAR '000                     | 2013G  | 2014G  | 2015G  |
|------------------------------|--------|--------|--------|
| Land                         | 640    | 640    | 640    |
| Buildings                    | 39,517 | 37,616 | 35,290 |
| Machinery and equipment      | 6,066  | 9,633  | 14,956 |
| Furniture and fixtures       | 1,586  | 1,475  | 1,882  |
| Motor vehicles               | 3,041  | 2,565  | 3,300  |
| Office equipment             | 5,232  | 4,031  | 4,652  |
| Tools, dies and other assets | 1,977  | 2,756  | 2,485  |
| Leasehold improvements       | 7,521  | 6,953  | 11,989 |
| Total                        | 65,580 | 65,669 | 75,198 |

Source: Consolidated Audited Financial Statements

Property, plant and equipment (PP&E) mainly comprise of buildings, machinery and equipment, and leasehold improvements which together represented 81.1%, 82.5% and 82.8% of total net book value as at 31 December 2013G, 2014G and 2015G respectively.

L'azurde Group's net PP&E increased from SAR 65.6 as at 31 December 2013G to SAR 65.7 as at 31 December 2014G million, driven by a decrease in additions by approximately SAR 6.4 million, partially offset by a decrease in total depreciation of around SAR 1.7 million. As at 31 December 2015G, PP&E increased to SAR 75.2 million driven by an increase in additions of about SAR 12.0 million as at 31 December 2015G, while depreciation was stable. This was partially offset by the exclusion of PP&E of around SAR 2.6 million SAR over the same period.

Effective 1 January 2014G, after an internal technical review of the useful lives of assets, management increased the estimated useful lives of L'azurde Group's machinery and equipment from five years to ten years in Egypt and from seven years to ten years in the Kingdom and for buildings from 33 years to 50 years. As a result of reviewing and amending these estimates, the depreciation rate decreased by SAR 1.5 million in 2014G and SAR 1.8 million in 2015G.

# J) Property, Plant and Equipment Additions by Nature

**Table 6.37: Property, Plant and Equipment Additions by Nature as at 31 December 2013G, 2014G and 2015G**

| SAR '000                     | 2013G  | 2014G  | 2015G  |
|------------------------------|--------|--------|--------|
| Buildings                    | 3,858  | 152    | 2,236  |
| Machinery and equipment      | 5,518  | 4,944  | 9,683  |
| Furniture and fixtures       | 669    | 433    | 873    |
| Motor vehicles               | 2,310  | 891    | 2,089  |
| Office equipment             | 2,255  | 1,351  | 2,951  |
| Tools, dies and other assets | 320    | 961    | 341    |
| Leasehold improvements       | 2,844  | 2,641  | 5,230  |
| Total                        | 17,773 | 11,374 | 23,405 |

Source: Consolidated Audited Financial Statements

In 2013G, additions amounted to SAR 17.8 million and primarily comprised the following:

- (a) additions of machinery and equipment of SAR 5.5 million as a result of normal replacements in the Kingdom and Egypt; and
- (b) purchase of buildings of SAR 3.9 million mostly in Egypt.

In 2014G, additions amounted to SAR 11.4 million and primarily comprised the following:

- (a) additions of machinery and equipment of SAR 4.9 million mainly as a result of normal replacements in the Kingdom and Egypt; and

- (b) leasehold improvements of SAR 2.6 million in relation to retail showrooms in the Kingdom and Egypt.

In 2015G, additions amounted to SAR 23.4 million and primarily comprised the following:

- (a) additions of machinery and equipment of SAR 9.7 million were mainly as a result of normal replacements in the Kingdom and Egypt;
- (b) office equipment of SAR 3.0 million in relation to purchases of office equipment including computer hardware in the Kingdom and Egypt; and
- (c) lease improvements of SAR 5.2 million in relation to retail showrooms in the Kingdom and Egypt.

#### K) Intangible Assets

Intangible assets amounted to SAR 300 thousand as at 31 December 2014G, represented trademark registration fees which were capitalised in previous years. As at 31 December 2015G, this amount was written off due to capitalisation of intangible assets as at 31 December 2013G and 2014G, while they were calculated as expenses in 2015G.

#### 6.7.1.2 Current Liabilities

**Table 6.38: Current Liabilities as at 31 December 2013G, 2014G and 2015G**

| SAR '000                               | 2013G   | 2014G     | 2015G     |
|--|---------|-----------|-----------|
| Accounts payable                       | 25,197  | 21,996    | 20,951    |
| Accrued expenses and other liabilities | 46,767  | 40,514    | 90,264    |
| Short term loans                       | 816,036 | 1,049,615 | 1,114,783 |
| Zakat                                  | 11,532  | 13,153    | 18,035    |
| Total                                  | 899,532 | 1,125,278 | 1,244,032 |
| DPO (Days payable outstanding)         | 33      | 51        | 41        |

Source: Consolidated Audited Financial Statements

#### A) Accounts Payable

Accounts payables decreased from SAR 25.2 million as at 31 December 2013G to SAR 22.0 million due to a decrease in the accounts payable balance for advertisement service providers pertaining to the wholesale business by SAR 1.3 million, the accounts payable balance for diamond jewellery suppliers of the retail business by SAR 1.0 million and the accounts payable balance of the retail business of L'azurde Egypt by SAR 0.7 million. This decrease was mainly due to the difference in dates of payment of invoices at the year ended 2014G compared to the year ended 2013G.

As at 31 December 2015G, accounts payable decreased to SAR 20.9 million, as a result of decreases in trade payables related to the Saudi Arabian retail business by SAR 3.7 million to reach SAR 0.6 million as at 31 December 2015G. Changes were also related to the trade payables pertaining to gold wholesale in Egypt and the Kingdom.

DPO decreased from 33 days in 2013G to 51 days in 2014G following specific management initiatives taken by L'azurde Group. DPO decreased to 41 days as at 31 December 2015G in line with a decrease in the accounts payable over the period.

Accounts payable by top five suppliers amounted to 57% as at 31 December 2015G, while by top three suppliers amounted to 43%. In terms of concentration of purchases, purchases made by top five suppliers in 2015G amounted to 33% while they amounted to 23% by top three suppliers.

#### B) Accrued Expenses and Other Liabilities

**Table 6.39: Accrued Expenses and Other Liabilities as at 31 December 2013G, 2014G and 2015G**

| SAR '000                      | 2013G  | 2014G  | 2015G  |
|-------------------------------|--------|--------|--------|
| Accrued expenses              | 39,375 | 29,390 | 46,356 |
| Other payables                | 1,939  | 3,610  | 3,447  |
| Accrued financial charges     | 2,345  | 3,722  | 4,836  |
| Amount due to related parties | -      | -      | 2,828  |
| Employees creditors           | 3,101  | 2,475  | 923    |

| SAR '000                            | 2013G  | 2014G  | 2015G  |
|-------------------------------------|--------|--------|--------|
| Unrealised gain on gold revaluation | 7      | 316    | 2      |
| Dividend payable                    | -      | -      | 31,873 |
| Total                               | 46,767 | 40,514 | 90,264 |

Source: The Company

### Accrued Expenses

Accrued expenses decreased from SAR 39.4 million as at 31 December 2013G to SAR 29.4 million at 31 December 2014G, due to excluding SAR 17.5 million in 2014G which is related to amounts due to Company clients for sale incentives that are reclassified with receivables item for accuracy. This was offset by an increase of SAR 5.8 million for accrued expenses related to employee salaries and rents.

Accrued expenses further increased to SAR 46.4 million as at 31 December 2015G primarily driven by an increase of around SAR 6.5 million in accrued advertising expenses, in addition to the increase in accrued expenses related to employee salaries of around SAR 4.4 million. In addition, accrued expenses that are related to consultancy and professional fees increased by SAR 2.1 million while accrued expenses that are related to rents increased by SAR 2.1 million over the period.

### Other Payables

Other payables include accrued taxes and rents of retail showrooms including Arab Mall showroom in Egypt. Other payables increased from SAR 1.9 million as at 31 December 2013G to SAR 3.6 million as at 31 December 2014G, mainly due to an increase in taxes payable by OroEgypt amounting to SAR 1.7 million for non-exempt revenue in OroEgypt.

As at 31 December 2015G, other payables decreased to SAR 3.4 million, mainly due to the decrease in the provision for social activities (SAR 0.3 million) and payable expenses related to the rent of Mall of Arabia showroom in Egypt (SAR 0.3 million).

### Accrued Financial Charges

Accrued financial charges increased from SAR 2.3 million as at 31 December 2013G to SAR 3.7 million as at 31 December 2014G, as overall gold loans increased in volume to finance the increased working capital requirements. The overall interest costs as a percentage of gold loans have been on a decreasing trend due to negotiations made by L'azurde with lending banks on reducing gold loan margins.

As at 31 December 2015G, accrued financial charges increased to SAR 4.8 million in line with the increase in volume of gold loans due to the growth in sales and production.

### Amount Due to Related Parties

The item refers to SAR 2.8 million as at 31 December 2015G. L'azurde Group deducted similar amounts from some employees by L'azurde Holding Company under their subscription in management incentive plan which is provided by L'azurde Holding Company. (For further details on the management incentive plan, kindly refer to section Remuneration of Directors and Senior Executives"Remuneration of Directors and Senior Executives")

### Employee Creditors

This item includes deducted amounts from some employees under their subscription account in the management incentive plan, reaching SAR 2.2 million in 2013G and the amount of SAR 2.6 million in 2014G. Employee creditors amounted to SAR 923 thousand in 2015G, which mostly relates to sales commission and other benefits related to selling and marketing employees. This amount has been reclassified in 2015G in order to be attributed to related parties where the management incentive plan is provided by the Parent Company. Thus, all amounts deducted under this plan are amounts due to the Parent Company without L'azurde Group incurring any liabilities of this plan. For more information, please see section of table 5.5 in section 5.4 ("Remuneration of Directors and Senior Executives").

### Unrealised Gain on Gold Revaluation

Unrealised gain on gold revaluation refers to net assessment differences of L'azurde Group's gold quantities according to gold price at the end of the financial year. According to L'azurde Group's policy, no owned quantity of gold shall be maintained without loans at the same quantity, therefore, the owned quantity of gold is no more than a few grammes and the differences of valuating such quantities are small amounts ranging from SAR 7.0 thousand as at 31 December 2013G to SAR 0.3 million as at 31 December 2014G owing to an increase of owned gold, which are then decreased to only SAR 2 thousand as at 31 December 2015G.

## Dividend Payable

On 5 Muharram 1437H (corresponding to 17 October 2015G), the Board of Directors approved distributing cash dividends of SAR 0.741 per share to a total sum of SAR 31,873 thousand, and payment has not been made till 31 December 2015G.

## C) Short Term Loans

**Table 6.40: Short Term Loans by Bank as at 31 December 2013G, 2014G and 2015G**

| SAR '000                 | 2013G   | 2014G     | 2015G     |
|--------------------------|---------|-----------|-----------|
| Gold loans               |         |           |           |
| Saudi Fransi Bank        | 57,558  | 35,040    | -         |
| SAMBA                    | 94,597  | 145,590   | 211,321   |
| National Commercial Bank | 305,379 | 304,807   | 502,429   |
| Saudi Hollandi Bank      | 315,737 | 428,695   | 401,032   |
| Standard Bank            | 42,765  | 121,026   | -         |
| Bank of Nova Scotia      | -       | 14,457    | -         |
| Short-term gold loans    | 816,036 | 1,049,615 | 1,114,783 |
| Cash loans               |         |           |           |
| National Commercial Bank | -       | -         | -         |
| Total cash loans         | -       | -         | -         |
| Total short term loans   | 816,036 | 1,049,615 | 1,114,783 |

Source: The Company

Short-term gold loans mostly consist of Islamic Murabaha gold quantity loans granted by banks at different profit and commission rates. The value of these loans shall be calculated by multiplying the borrowed amount by global gold price as at the date of obtaining the loan. The profit rate or return due on each loan shall be calculated according to the loan value denominated in Saudi Riyal in return rate agreed upon in loan maturity as per agreements entered into with banks. The loans are paid through returning the borrowed amount of gold to banks and paying the return due in Saudi Riyals. L'azurde Group provides these loans through providing cash collateral, ranging from 10% to 110% of gold loans value, as well as gold inventory kept by L'azurde Group. The gold loans item also includes an agreement with Standard Chartered Bank. The agreement with the bank provides for an exchange of gold for cash with the same value from the company, after which that gold shall be returned to the bank and the same sum of money paid is refunded at the maturity date. Gold loans, inventory and account receivables shall be revaluated on a quarterly basis ( every three months) with the objective of preparing financial statements through multiplying borrowed gold by gold global price as at the end of the last business day at the end of each financial period.

These loans increased from SAR 816.0 million as at 31 December 2013G to SAR 1.0 billion as at 31 December 2014G, in line with the increase in business activity, and to finance the associated increase in receivables and inventories for the period under consideration. The average collection period from client increased from 23 days in 2013G to 30 days in 2014G.

Short-term gold loans increased to SAR 1.1 billion as at 31 December 2015G primarily to finance the increase in working capital, mainly accounts receivable, resulting from the increase in business activity in the first half of 2015G as the average collection period from client increased from 30 days in 2014G to 43 days in 2015G.

## D) Zakat Provision

**Table 6.41: Movement of Zakat Provision as at 31 December L'azurde 2013G, 2014G and 2015G**

| SAR '000                               | 2013G    | 2014G    | 2015G    |
|--|----------|----------|----------|
| Balance at the beginning of the period | 9,917    | 11,532   | 13,153   |
| Formed during the period               | 11,910   | 13,240   | 14,311   |
| Payments during the period             | (10,295) | (11,620) | (12,424) |
| Balance at the end of the period       | 11,532   | 13,153   | 15,040   |

Source: The Company

Zakat provision increased from SAR 11.5 million as at 31 December 2013G to SAR 13.2 million as at 31 December 2014G, in line with the growth in L'azurde Group's Zakat base.

As at 31 December 2015G, Zakat provision increased to SAR 15.0 million due to the abovementioned reasons.

## E) Non-Current Liabilities

**Table 6.42: Non-Current Liabilities as at 31 December 2013G, 2014G and 2015G**

| SAR '000                     | 2013G  | 2014G  | 2015G  |
|------------------------------|--------|--------|--------|
| Employees' terminal benefits | 23,740 | 28,939 | 31,398 |
| Deferred income tax          | -      | -      | 991    |
| Total                        | 23,740 | 28,939 | 32,389 |

Source: Consolidated Audited Financial Statements

### Employees' Terminal Benefits

The end of service benefit provision is calculated based on the Saudi Arabian labour law. It increased from SAR 23.7 million as at 31 December 2013G to SAR 28.9 million as at 31 December 2014G, in-line with the increase in L'azurde Group's employees' years of service, and salary increases as well as an increase of 226 additional employees from 2013G to 2014G.

As at 31 December 2015G, the end of service benefit provision increased to SAR 31.4 million due to an increase in the number of employees by 258 employees from 2014G 2015G in line with the expansion of operations.

### Deferred Income Tax

ORO Egypt, an affiliate, was tax exempted as per the Egyptian law until 31 December 2014G and the Company received tax liabilities on their activities that were not covered by tax exemption until 2011G, while they paid them. As at 31 December 2015G, deferred income tax amounted to SAR 1.0 million.

## 6.7.1 Shareholders' Equity

**Table 6.43: Shareholders' Equity as at 31 December 2013G, 2014G and 2015G**

| SAR '000                                 | 2013G    | 2014G    | 2015G    |
|--|----------|----------|----------|
| Share capital                            | 300,000  | 300,000  | 430,000  |
| Statutory reserve                        | 43,880   | 52,509   | 10,057   |
| Retained earnings                        | 136,875  | 151,709  | 89,855   |
| Foreign currency translation adjustments | (14,461) | (21,021) | (38,892) |
| Total Shareholders' equity               | 466,294  | 483,197  | 491,021  |

Source: Consolidated Audited Financial Statements

### Share Capital

Share capital remained stable at SAR 300.0 million between 31 December 2013G and 31 December 2014G, and is divided into 30,000,000 shares of SAR 10 each. Share capital increased to SAR 430.0 million as at 31 December 2015G, as the shareholders of L'azurde Group resolved to increase the capital of L'azurde Group by SAR 130.0 million by transferring SAR 52.5 million from statutory reserve and SAR 77.5 million from retained earnings to share capital. The legal steps to effect the increase in the share capital were completed during the first half of 2015G.



## Statutory Reserve

Statutory reserve represents the requirement under Article 176 of the Saudi Arabian Companies Law whereby all companies are required to transfer 10% of the annual net income to statutory reserve, until the reserve equals 50% of the paid up capital. As at 31 December 2015G, L'azurde Group transferred SR 52.5 million from statutory reserve to share capital, thus decreasing the balance of statutory reserve to nil.

## Retained Earnings

Retained earnings increased from SAR 136.9 million as at 31 December 2013G to SAR 151.7 million as at 31 December 2014G, primarily driven by the achieved net income from SAR 86.3 million in 2014G, partially offset by payment of dividends amounting to SAR 62.8 million in 2014G. Retained earnings decreased to SAR 89.8 million as at 31 December 2015G as a result of capitalisation of SAR 77.5 million to the share capital and the distribution of dividends of SAR 74.9 million; in return, the retained earnings increased by the net income during the same period.

## Foreign Currency Translation Adjustments

Foreign currency translation adjustments increased from SAR negative SAR 14.5 million as at 31 December 2013G to negative SAR 21.0 million as at 31 December 2014G, due to the devaluation of Egyptian Pound against Saudi Riyal for the period under consideration. As at 31 December 2015G, foreign currency translation adjustments further increased to negative SAR 38.9 million due to further devaluation of Egyptian Pound against Saudi Riyal for the period under consideration.

## 6.8 L'azurde Group Consolidated Cash Flows Statement

**Table 6.44: Consolidated Cash Flow Statements as at 31 December 2013G, 2014G and 2015G**

| SAR '000   | 2013G    | 2014G    | 2015G    |
|--|----------|----------|----------|
| Net cash (outflow) / inflow from operating activities    | 171,606  | (3,538)  | 190,988  |
| Net cash (used in) / generated from investing activities | (25,867) | 1,058    | (19,235) |
| Net cash used in financing activities*                   | (23,059) | (69,388) | (60,870) |
| (Decrease) / Increase in cash and cash equivalents       | 122,680  | (71,867) | 110,883  |
| Cash and cash equivalents at the beginning of the year   | 11,741   | 134,422  | 62,555   |
| Cash and cash equivalents at the end of the year         | 134,422  | 62,555   | 173,438  |

Source: Consolidated Audited Financial Statements

\* Foreign currency translation adjustments of SAR (17,870) thousand were included within net cash flows from financing activities in 2015G, with the objective of unifying presentation thereof.

### 6.8.1.1 Cash Generated from Operating Activities

**Table 6.45: Cash Generated from Operating Activities as at 31 December 2013G, 2014G and 2015G**

| SAR '000                                       | 2013G  | 2014G     | 2015G     |
|--|--------|-----------|-----------|
| Operating activities                           |        |           |           |
| Income before Zakat and income tax             | 86,088 | 99,531    | 118,864   |
| Adjustments for:                               |        |           |           |
| Depreciation                                   | 11,677 | 9,930     | 9,901     |
| Employees terminal benefits expense            | 4,920  | 6,552     | 7,950     |
| (Gain)/loss on disposal of PP&E                | 1,893  | (78)      | (195)     |
| Loss on disposal of intangible assets          | 57     | -         | 300       |
| Impairment of prepayments                      | -      | 2,015     | 1,551     |
| Melting costs and charge for slow moving items | 9,845  | 5,852     | 2,577     |
| Doubtful debts expense/(reversal)              | 8,613  | (1,552)   | (5,175)   |
| Changes in operating assets and liabilities    |        |           |           |
| Accounts receivable                            | 6,121  | (116,886) | (104,940) |

| SAR '000   | 2013G    | 2014G     | 2015G    |
|--|----------|-----------|----------|
| Inventories  | 61,220   | (133,962) | (692)    |
| Prepayments and other receivables                        | (4,079)  | 4,962     | (7,629)  |
| Accounts payable, accrued expenses and other liabilities | 16,427   | 3,028     | 16,831   |
| Proceeds of short term gold loans, net                   | 9,717    | 233,579   | 65,167   |
| Changes in Margin deposits                               | (28,813) | (103,537) | 104,391  |
| Zakat paid   | (10,295) | (11,620)  | (12,424) |
| Employees' terminal benefits paid                        | (1,786)  | (1,352)   | (5,491)  |
| Net cash (used in)/generated from operating activities   | 171,606  | (3,538)   | 190,988  |

Source: Consolidated Audited Financial Statements

Cash flow from operating activities consists of net income after adjusting for noncash obligations related to depreciation, changes in the provision for employees' terminal benefits, financial charges, Zakat expenses, gain on disposal of property and equipment, and the changes in the working capital.

Cash flows from operating activities decreased from SAR 171.6 million in 2013G to negative SAR 3.5 million in 2014G. This decrease was a result of L'azurde Group utilising most of its excess cash on hand and at banks of SAR 103.5 million as collateral for margin deposits in order to obtain gold loans at lower interest rates. Most of these cash margin deposits can be liquidated at any time and when needed in order to finance working capital requirements. This was accompanied by an increase in working capital requirements in goods by SAR 134.0 million in line with sales rise where demand and sales changes are associated with seasons in which customers buy products of L'azurde Group at the end of the year in preparation for mid-year and summer occasions. Following that, the period of turning inventory increased from 122 days as at 31 December 2013G to 138 days as at 31 December 2014G.

The working capital requirements for receivables increased by SAR 116.9 million. Collection period of accounts receivable also increased from 23 days as at 31 December 2013G to 30 days as at 31 December 2014G. On the other hand, there was a positive cash flow from accrued expenses and other liabilities of SAR 3.0 million, due to increase of creditor payment period from 33 days as at 31 December 2013G to 51 days as at 31 December in 2014G.

Margin deposits are provided to banks as a security against short-term gold loans. The management believes that it is more relevant to classify changes in margin deposits in the cash flow from operating activities as opposed to financing activities, based on the nature of margin deposits. If this reclassification adjustment is made, the revised balances of cash flow from operating and financing activities will be as follows:

**Table 6.46: (A): Revised balances of cash flow from financing activities for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                            | 2013G   | 2014G  | 2015G  |
|-------------------------------------|---------|--------|--------|
| Cash flow from operating activities | 200,418 | 99,999 | 86,597 |

Source: The Company

**Table 6.47: (B): Average cash flow from operating activities for the Years ended 31 December 2013G, 2014G and 2015G**

| SAR '000                            | 2013G    | 2014G     | 2015G  |
|-------------------------------------|----------|-----------|--------|
| Cash flow from financing activities | (51,872) | (172,925) | 43,521 |

Source: The Company

Cash flows from operating activities increased from negative SAR 3.5 million in 2014G to SAR 191.0 million in 2015G. This was due to a decrease of cash collateral in order for change to reach SAR 104.4 million in 2015G compared to SAR 103.5 million as negative change in 2014G. Moreover, there was a positive cash flow from accrued expenses and other liabilities item by SAR 16.8 million arising out of increase of accrued expenses by SAR 17.8 million with decrease of payables item by SAR 1.0 million due to payables maturity days from 51 days in 2014G to 41 days in 2015G. This was offset by a decrease in cash flows arising out of a negative cash flow from increase of receivables item by SAR 104.9 million owing to an increase of collection period of accounts receivable from 30 days in 2014G to 43 days in 2015G. In addition, working capital requirements in goods was slightly increased by SAR 692 thousand in 2015G compared to SAR 134 million in 2014G. On the other hand, days inventory outstanding continued to increase from 138 days as

at 31 December 2014G to 144 days as at 31 December 2015G. This was accompanied by an increase in income before Zakat and income tax with equivalent of SAR 29.8 million within this period.

### 6.8.1.2 Cash Generated from Investing Activities

**Table 6.48: Cash Generated from Investing Activities for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                                     | 2012G    | 2013G    | 2014G    | 2015G    |
|--|----------|----------|----------|----------|
| Investment Activities                        |          |          |          |          |
| Short-term deposits                          | -        | (11,000) | 11,000   | -        |
| Purchases of PP&E                            | (15,964) | (17,773) | (11,374) | (23,405) |
| Proceeds from disposals of PP&E              | 581      | 2,907    | 1,433    | 4,171    |
| Net cash generated from investing activities | (15,383) | (25,867) | 1,058    | (19,235) |

Source: Consolidated Audited Financial Statements

Investing activities mainly included additions to short-term deposits and proceeds from disposals of PP&E.

#### Short-Term Deposits

The short-term deposits amounting to SAR 11.0 million as at 31 December 2013G were classified separately from cash and cash equivalents to comply with accounting disclosure requirements given their maturity date was more than three months as at 31 December 2013G. The Group has not maintained any short-term deposits during 2015G.

#### Purchases of PP&E

Cost of PP&E procurement decreased from SAR 17.7 in 2013G to SAR 11.4 million in 2014G in line with the decrease in additions for buildings, vehicles, and office tools (by SAR 3.7 million, SAR 1.4 million and SAR 0.9 million, respectively). Cost of PP&E procurement then increased to SAR 23.4 million as at 31 December 2015G due to an increase in additions for PP&E and development on leased assets (by SAR 2.1 million, SAR 4.7 million and SAR 2.6 million, respectively) in line with the expansion in L'azurde Group's operations and the development of two retail showrooms in the Kingdom and Egypt.

#### Proceeds from Disposals of PP&E

Proceeds of PP&E sale are mainly related to PP&E exclusions. Proceeds of PP&E sale decreased from SAR 2.9 million as at 31 December 2013G to SAR 1.4 million as at 31 December 2014G. This was due to a decline in exclusions of PP&E by SAR 3.4 million which led to a decrease from SAR 3.0 million as at 31 December 2013G to SAR 0.1 million as at 31 December 2014G. Proceeds of PP&E sale, however, increased to SAR 4.2 million as at 31 December 2015G due to an increase of disposal of PP&E to SAR 3.0 million as at 31 December 2015G.

### 6.8.1.3 Cash Flows Generated from Financing Activities

**Table 6.49: Cash Generated From Investing Activities for the Years Ended 31 December 2013G, 2014G and 2015G**

| SAR '000                                      | 2013G    | 2014G    | 2015G    |
|---|----------|----------|----------|
| Financing Activities                          |          |          |          |
| Dividends paid                                | -        | (62,827) | (43,000) |
| Foreign currency translation adjustments, net | (6,059)  | (6,560)  | (17,870) |
| Repayment of short-term cash loans, net       | (17,000) | -        | -        |
| Net cash used in financing activities         | (23,059) | (69,388) | (60,870) |

Source: The Company

L'azurde Group's financing activities were primarily related to the net change in repayment of short-term cash loans, foreign currency translation adjustments and dividends paid. Cash flows from financing activities increased from SAR 23.1 million in 2013G to SAR 69.4 million in 2014G. This was primarily due to distributing SAR 62.8 million of dividends in 2014G. Cash flows from financing activities reached SAR 60.9 million in 2015G owing to distribution of SAR 43.0 million of dividends at the end of the period.

## 6.9 Commitments and Contingencies

Contingent liabilities primarily relate to banking letters of guarantees provided by L'azurde Group to government agencies such as the Customs and Gas Company in the Kingdom. Contingent liabilities amounted to SAR 0.1 million in 2013G, represented in letters of guarantees provided to Customs Authority as to gold shipments. Contingent liabilities increased to SAR 0.9 million in 2014G owing to increase of letters of guarantees value provided to Customs Authority, then they decreased to SAR 0.7 million in 2015G with a change in gold shipments.

## 6.10 Capitalisation and Indebtedness

**Table 6.50: Capitalisation and Indebtedness as at 31 December 2013G, 2014G and 2015G**

| SAR '000   | 2013G     | 2014G     | 2015G     |
|--|-----------|-----------|-----------|
| Total short term loans   | 816,036   | 1,049,615 | 1,114,783 |
| Shareholders' equity:  |           |           |           |
| Capital  | 300,000   | 300,000   | 430,000   |
| Statutory reserve  | 43,880    | 52,509    | 10,057    |
| Retained earnings  | 136,875   | 151,709   | 89,855    |
| Foreign currency translation adjustments                                 | (14,461)  | (21,021)  | (38,892)  |
| Total shareholder's equity   | 466,294   | 483,197   | 491,021   |
| Total capitalisation (total short-term loans + total shareholder equity) | 1,282,330 | 1,532,813 | 1,605,803 |
| Total short-term loans/ total capitalisation                             | 63.6%     | 68.5%     | 69.4%     |

Source: The Company

## 6.11 Planned Capital Expenditure

L'azurde Group has been working on constructing a new manufacturing facility in Egypt amounting to approximately SAR 9.1 million as at 31 December 2014G which will add up to an estimated total production capacity of 15 tons per year. Moreover, planned capital expenditures were associated with the opening of new stores with an investment cost of SAR 1.7 million as at 31 December 2014G.

As at 31 December 2015G, approved capital expenditure in relation to the construction of a new manufacturing facility in Egypt amounted to SAR 9.5 million with achievement percentage of 25% as the achievement is expected to be completed in August 2016G. Moreover, planned capital expenditure was associated with the opening of new retail store in Andalus Mall, which has not yet opened, amounting to SAR 1.1 million as at 31 December 2015G, as set out below in the table. It is expected to be completed on November 2016G.

**Table 6.51: Committed Capital Expenditure as at 31 December 2015G**

| Type of project | Location | SAR '000 |
|-----------------|----------|----------|
| Egypt factory   | Egypt    | 9,500    |
| Total           | -        | 9,500    |

Source: The Company

**Table 6.52: Planned Capital Expenditure for showrooms as at 31 December 2015G**

| Type of project | Location | Project Value SAR '000 |
|-----------------|----------|------------------------|
| Andalus Mall    | Jeddah   | 1,100                  |
| Total           | -        | 1,100                  |

Source: The Company

## 6.12 L'azurde Group's Assets Outside the Kingdom

### 6.12.1 OroEgypt

**Table 6.53: L'azurde Group's Assets – OroEgypt as at 31 December 2013G, 2014G and 2015G**

| SAR '000           | 2013G   | 2014G   | 2015G   |
|--------------------|---------|---------|---------|
| Current assets     | 387,511 | 537,740 | 207,739 |
| Non-current assets | 20,562  | 13,462  | 8,619   |
| Total assets       | 408,072 | 551,202 | 216,357 |

Source: Reviewed Financial Statements of OroEgypt Company

Current assets decreased from SAR 537.7 million in 2014G to SAR 207.7 million in 2015G due to reduced volume of operations as a result of L'azurde Group's policy to concentrate its operations in Egypt through L'azurde Egypt.

Non-current assets decreased from SAR 13.5 million in 2014G to SAR 8.6 million in 2015G as a result of sale of OroEgypt's outdated assets by L'azurde Group.

### 6.12.2 L'azurde Egypt

**Table 6.54: L'azurde Group's Assets– L'azurde Egypt as at 31 December 2013G, 2014G and 2015G**

| SAR '000           | 2013G | 2014G  | 2015G   |
|--------------------|-------|--------|---------|
| Current assets     | 7,984 | 90,818 | 414,104 |
| Non-current assets | 668   | 3,795  | 15,218  |
| Total assets       | 8,652 | 94,612 | 429,322 |

Source: Reviewed Financial Statements of OroEgypt Company

Current assets increased in L'azurde Egypt from SAR 90.8 million in 2014G to SAR 414.1 million in 2015G due to L'azurde Group's increased operations in L'azurde Egypt resulting from increased working capital according to L'azurde Group's policy to concentrate its operations in Egypt through L'azurde Egypt.

Non-current assets increased from SAR 3.8 million to SAR 15.2 million as a result of purchasing new assets and building a factory (under construction). It is worth noting that the new assets purchased for L'azurde Egypt do not represent an additional burden or duplication of existing assets in OroEgypt which are considered outdated assets that are not up-to-date with the latest technologies as opposed to L'azurde Egypt's purchased assets which are characterised by modern technology to lift the quality standards and minimise costs. OroEgypt's outdated assets have been sold to third parties in the market. OroEgypt will focus its operations on retail activity which does not require new production assets, while L'azurde Egypt will focus its operations on manufacturing and wholesale activities to avoid duplication of assets and operations between the two companies.

### 6.12.3 Dubai

**Table 6.55: L'azurde Group's Assets – L'azurde Dubai as at 31 December 2013G, 2014G and 2015G**

| SAR '000           | 2013G   | 2014G   | 2015G   |
|--------------------|---------|---------|---------|
| Current assets     | 111,525 | 157,497 | 892,525 |
| Non-current assets | 5,839   | 6,115   | 6,212   |
| Total assets       | 117,364 | 163,612 | 104,532 |

Source: The Company

1 Current assets increased in L'azurde Dubai from SAR 157.5 million in 2014G to SAR 526.0 million in 2015G due to L'azurde Dubai's increased investments in its affiliate L'azurde Egypt.

#### 6.12.4 Abu Dhabi

**Table 6.56: L'azurde Group's Assets – L'azurde Abu Dhabi as at 31 December 2013G, 2014G and 2015G**

| SAR '000           | 2013G | 2014G  | 2015G  |
|--------------------|-------|--------|--------|
| Current assets     | 5,477 | 10,674 | 10,623 |
| Non-current assets | 757   | 1,187  | 463    |
| Total assets       | 6,234 | 11,861 | 11,085 |

Source: The Company

#### 6.12.5 Qatar

**Table 6.57: L'azurde Group's Assets – L'azurde Qatar as at 31 December 2013G, 2014G and 2015G**

| SAR '000           | 2013G | 2014G | 2015G |
|--------------------|-------|-------|-------|
| Current assets     | -     | (354) | (38)  |
| Non-current assets | -     | -     | -     |
| Total assets       | -     | (354) | (38)  |

Source: The Company

## 7. Dividend Distribution Policy

Pursuant to Article 108 of the Companies' Regulation, each Shareholder has the rights attached to the Shares, including the right to receive a portion of the dividends declared. The declaration and payment of any dividends will be recommended by the Board of Directors before being approved by the Shareholders at a General Assembly meeting. The Company is under no obligation to declare dividends and any decision to do so will depend on, amongst other things, the Company's historic and anticipated earnings and cash flow, financing and capital requirements and market and general economic conditions, the Company's Zakat position and legal and regulatory considerations. The distribution of dividends is subject to certain limitations contained in financing agreements and gold loans agreed upon with financiers. For instance, the Company shall obtain the approval of each of SAMBA Financial Group, and Saudi Hollandi Bank prior to distribution of dividends exceeding 75% of net profit. It shall not distribute dividends if it failed to comply with undertakings under the facility agreement entered into with National Commercial Bank (NCB) (For more details, see Section 12.6 ("Gold Loans and Financing Agreements")). The distribution of dividends is subject to certain limitations contained in the By-Laws. Dividends will be distributed in Saudi Arabian Riyals.

After deducting all general expenses and other costs, the Company's annual net profits shall be allocated as follows:

- (a) 10% of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when such statutory reserve totals one-half of the Company's capital;
- (b) the Ordinary General Assembly may, upon request of the Board of Directors, set aside 10% of the annual net profits to form an additional reserve to be allocated towards one or more specific purposes;
- (c) out of the balance of the net profits, Shareholders shall be paid an initial payment amounting to 5% of the Company's paid-up capital;
- (d) out of the net profits allocated for distribution to the Shareholders, not more than 5% shall be paid to the Board of Directors as remuneration (note that pursuant to the Ministerial Resolution No. 1071 dated 2/11/1412H (corresponding to 5/5/1992G) issued by HE the Minister of Commerce and Industry, where the remuneration is distributed as a percentage of profits, the maximum annual remuneration for each Director at the Company shall be a sum of SAR 200,000 plus a sum of SAR 3,000 for each Board of Directors meeting attended thereby); and
- (e) the remainder of the net profits shall be distributed to the Shareholders as an additional share of the dividends or deposited in the retained earnings account. The Board of Directors shall have the right to distribute quarterly or semi-annual dividends based on the interim dividend distribution rules approved by the General Assembly and after obtaining the required regulatory approvals.

The table below summarises dividends declared and distributed by the Company since the start of 2012G:

**Table 7.1: Dividends Declared and Paid during the Years Ended 2012G, 2013G, 2014G and 2015G**

|                                    | 2012G (SAR) | 2013G (SAR) | 2014G (SAR)             | 2015G (SAR)             |
|------------------------------------|-------------|-------------|-------------------------|-------------------------|
| Declared Dividends for the year    | 25,738,070  | -           | 62,827,057              | 98,000,000              |
| Paid Dividends throughout the year | -           | -           | 62,827,057 <sup>1</sup> | 43,000,000 <sup>2</sup> |
| Net Income                         | 51,476,139  | 74,177,974  | 86,290,539              | 100,567,197             |
| Pay-Out Ratio                      | 50%         | 50%         | 50%                     | 55%                     |

Source: The Company

1- The Company distributed cash dividends of SAR 62,827,057 million in 2014G representing 50% of the Company's profits for the financial years ended 31 December 2012G and 2013G.

2- Total declared dividends for 2014G and 2015G reached SAR 98,000,000 million representing around 50% of net profit for the years ended 31 December 2014G and 2015G, the Company distributed cash dividends of SAR 43,000,000 in 2014G. It was paid during the first half of 2015G. Declared dividends over the period of 2015G which amounted to SR 55,000,000 was distributed during March 2016G.

In addition to the foregoing, resolutions of the board were approved at the ordinary general assembly meeting of the Company held on 21/05/1437H (corresponding to 01/03/2016G) upon distribution of cash dividends of SAR 23,126,484, representing 5.37% of the Company's capital for the second half of 2015G, as well as distribution of SAR 31,873,484, representing 7.4% of the Company's capital, to shareholders for the first half. Thus, total amounts distributed to shareholders for 2015G amount to SAR 55,000,000, representing 12.7% of Company's capital. Shareholders who are registered in the share register on the date of the general assembly signed on 21/05/1437H (corresponding to 01/03/2016G) shall have the priority over profits. Offer Shares do not entitle to any dividends announced prior to the date of this Prospectus, as the first entitlement of Offer Shares shall be in dividends announced by the Company from the date of this Prospectus and the subsequent financial years. As at the date of this Prospectus, the Directors undertake that there are no declared or outstanding dividends except as set out above.



## 8. Use of Proceeds

The total proceeds from the Offering are estimated at SAR 477,300,000 of which approximately SAR 26,000,000 will be applied towards the Offering expenses, which include the fees of the Financial Advisors, the Lead Manager, the Underwriter, the legal advisors, the reporting accountants, the Selling Agents and the Market Consultant, as well as marketing, printing and distribution fees and other costs and expenses related to the Offering.

The Net Proceeds from the Offering of approximately SAR 451,300,000 will be distributed to the Selling Shareholders pro rata to the number of Offer Shares which will be sold by each of them in the Offering. The Company will not receive any part of the proceeds from the Offering. The Selling Shareholders will bear all fees, costs and expenses in relation to the Offering.

## 9. Capitalisation and indebtedness

Prior to the Offering, the Selling Shareholders owned the entire issued share capital of the Company and, following the completion of the Offering, L'azurde Holding will own 70% of the share capital of the Company.

The table below sets out the capitalisation of the Company as derived from the audited consolidated financial statements for the financial years ended 31 December 2013G, 2014G, and 2015G. The following table should be read in conjunction with the relevant Financial Statements, including the notes thereto and set out in Section 19 ("Consolidated Financial Statements and Auditor's Report").

**Table 9.1: Capitalisation and Indebtedness of the Company**

| (SAR '000)   | 2013G     | 2014G     | 2015G     |
|--|-----------|-----------|-----------|
| Total short-term loans   | 816,036   | 1,049,615 | 1,114,783 |
| Shareholders' equity:  |           |           |           |
| Share capital  | 300,000   | 300,000   | 430,000   |
| Statutory reserve  | 43,880    | 52,509    | 10,057    |
| Retained earnings  | 136,875   | 151,709   | 89,855    |
| Foreign currency translation adjustments                             | (14,461)  | (21,021)  | (38,892)  |
| Total shareholders' equity   | 466,294   | 483,197   | 491,021   |
| Total capitalisation (Total short-term loans + Shareholders' equity) | 1,282,330 | 1,532,813 | 1,605,803 |
| Total short-term loans / Total capitalisation                        | 64.7%     | 68.5%     | 69.4%     |

Source: Audited Consolidated Financial Statements and the Company

The Directors confirm that:

- (a) none of the Company's share capital is under option;
- (b) neither the Company nor its Subsidiaries have any debt instruments as at the date of this Prospectus; and
- (c) subject to any material adverse change in the Company's business, they believe that its existing cash balances and its cash flows will be sufficient to meet its anticipated cash needs for working capital and capital expenditure for at least 12 months following the date of this Prospectus.

## 10. Statements by Experts

All the Advisors, whose names are listed starting on page (vii) have given and, as at the date of this Prospectus, have not withdrawn, their written consent to the publication of their names, addresses, logos and statements attributed to each of them in this Prospectus, and do not, themselves, nor do their employees forming part of the team serving the Company, or any of their relatives, have any shareholding or interest of any kind in the Company or any of its Subsidiaries as at the date of this Prospectus which would impair their independence.

## 11. Declarations in respect of directors

The Directors declare the following:

- (a) they have not at any time been declared bankrupt or been subject to bankruptcy proceedings;
- (b) none of the companies in which any of the directors, senior executives or the secretary of the board was employed in a managerial or supervisory capacity was declared bankrupt or insolvent for the past five years;
- (c) they do not, themselves, nor do any of their relatives or affiliates, have any material interest in any written or verbal contract or arrangement in effect or contemplated at the date of this Prospectus which has an impact in relation to the business of the Company and its Subsidiaries;
- (d) except as described in Section 5.1.1 ("Composition of the Board of Directors") and other than qualification shares, neither they nor any of their relatives have a direct or an indirect interest in the Shares or the business of the Company or any of its Subsidiaries nor in any debt Instruments of the Company or its Subsidiaries, and the Company is prohibited from granting a loan to a Director or guaranteeing a loan entered into by a Director;
- (e) no commissions, discounts, brokerages or other non-cash compensation were granted by the Company or any of its Subsidiaries within the three years immediately preceding the application for the registration and admission to listing in connection with the issue or sale of any securities;
- (f) there has been no interruption in the Company's business or that of its Subsidiaries that may affect or have a significant impact on their financial situation during 12 months preceding the date of this Prospectus;
- (g) there is no intention to introduce any material changes in the nature of the Company's activities or its Subsidiaries;
- (h) they will not vote on General Assembly resolutions that relate to any Related Party transaction or contract in which the Directors have a direct or indirect interest;
- (i) there has been no material adverse change in the financial or trading position of the Company or its Subsidiaries in the three years immediately preceding the date of filing the registration application and acceptance of listing and during the period from the end of the period covered in the external auditors' report to the date of this Prospectus;
- (j) as at the date of this Prospectus, the Company does not have any employee share schemes in place for its employees or any other arrangement, except the management incentive plan agreements concluded by L'azurde Holding Company LLC and Gulf Fifth Gemstone Saudi LLC with certain Senior Executives, without any liability on the Company;
- (k) the Company does not have any securities (contractual or otherwise) or any assets that are subject to fluctuation which would adversely and materially affect the balance sheets;
- (l) except as disclosed in Section 6.5 ("Principal Factors Affecting the L'azurde Group's Operations"), the Company is not aware of any information regarding any governmental, economic, financial, monetary or political policies or any other factors that have materially affected or may materially affect (directly or indirectly) its operations;
- (m) except as disclosed in Section 6.5 ("Principal Factors Affecting the L'azurde Group's Operations"), the Company is not aware of any seasonal information or business cycles related to its business that would affect the Company's operations or financial position;
- (n) the statistical information used in Section 3 ("Market Overview") obtained from third-party sources represents the latest information available from each respective source;
- (o) the Company has insurance policies with sufficient insurance coverage to carry out its activities. The Company renews its insurance policies regularly to ensure continued insurance coverage and the Company took all reasonable security measures as per applicable industry practices;
- (p) all agreements which the Company considers to be material or important or which have an impact on a Subscriber's decision to invest in the Offer Shares have been disclosed. There are no other material agreements or contracts that have not been disclosed. In addition, the agreement made between shareholders of Gulf Fifth Gemstone will expire post-offering;
- (q) all terms and conditions that may affect the decisions of the investors to invest in Offer Shares have been disclosed;
- (r) as at the date of this Prospectus, there are no Related Party material contracts or transactions that have any material impact on the Company's activities or its Subsidiaries, and the Company has no intention to enter into any new agreements with related parties;
- (s) as at the date of this Prospectus, the Shareholders whose names appear in section 4.4 ("Current Shareholding Structure") and Annex A are the legal and beneficial owners of the Company;

- (t) all increases in the capital of the Company are in compliance with the laws and regulations of the Kingdom, and the Company did not seek any external funding;
- (u) except as disclosed in Section 2 ("Risk Factors"), and to the best of their knowledge and belief, there are no other material risks that may affect a prospective investor's decision to invest in the Offer Shares;
- (v) as at the date of this Prospectus, the Company has obtained all necessary licenses and permits to carry out their business activities;
- (w) except as disclosed in Section 12.12 ("Litigation"), the Company nor its Subsidiaries are parties to any litigation, claims, lawsuits or current proceedings that could materially affect the business operations or financial position of the Company;
- (x) the Company has not issued any debt instruments, nor does it have any term loans or any other material outstanding borrowings or indebtedness (including bank overdrafts, liabilities under acceptance, acceptance credits or hire purchase commitments), other than what was disclosed in note No. 12 to the 2015G audited consolidated financial statements of the Company, as further described in Section 12.6 ("Gold Loans and Financing Agreements") and Section 6.7.1.2 (c) ("Short Term Loans");
- (y) none of the Company's other assets are under mortgage, right or charge, other than what was disclosed in note No. 5 and 6 to the 2014G audited consolidated financial statements of the Company, as further described in Section 12.6 ("Gold Loans and Financing Agreements");
- (z) the Board of Directors further declares that the Company and its Subsidiaries have sufficient funds to meet the working capital requirements for 12 months effective from the date of this Prospectus;
- (aa) the Board of Directors declares that no Shares of the Company or shares in its Subsidiaries are under option except as disclosed in section 12.5.2.2 (Partners' Agreements in Relation to L'azurde Qatar");
- (bb) as at the date of this Prospectus, neither the Company nor its Subsidiaries have a policy for Research & Development;
- (cc) the Board of Directors declares that the financial information appearing in this Prospectus, the audited consolidated financial statements for the financial years ended 31 December 2013G, 2014G and 2015G, and the notes attached thereto have been prepared by the Auditors in accordance with SOCPA accounting standards;
- (dd) the Board of Directors further declares that the financial information appearing in this Prospectus has been extracted from the audited consolidated financial statements for the financial years ended 31 December 2013G, 2014G and 2015G, and no material amendments have been made thereto except for rounding;
- (ee) the Company is capable of preparing necessary reports in a timely manner according to executive regulations issued by the CMA;
- (ff) all necessary approvals have been obtained from lenders to offer 30% of the Company shares in order for the Company to be a public joint stock company; and
- (gg) the Company is committed to all the terms and conditions under agreements with donors of all loans, facilities and financing.

In addition to the above, the Board of Directors confirms that:

- (a) third-party information and data included in this Prospectus, including the information obtained or derived from the market research conducted by the Market Consultant, is reliable and have no reason to believe that such information is materially inaccurate;
- (b) the Company has prepared its internal control policies on sound principles where the Company has implemented a policy regulating and resolving possible conflicts of interest issues, which include the misuse of the Company's assets and misfeasance due to Related Party transactions. The Company has ensured that its operational and financial policies are sound and it will ensure the implementation of the necessary supervisory controls in accordance with Article 10 of the Corporate Governance Regulations in order to manage potential risks. The Directors review and revise internal monitoring controls on an annual basis;
- (c) the internal control, accounting, and IT systems are sufficient and adequate;
- (d) as at the date of this Prospectus, there is no conflict of interest related to Directors with regard to contracts or transactions entered into with the Company;
- (e) as at the date of this Prospectus, none of the Directors participated in any similar or competitive activity of the Company or its subsidiary. The Board of Directors undertake to fulfil this regulatory requirement in the future as per Article 70 of Companies' Regulations and Article 18 of Corporate Governance Regulations;

- (f) unless otherwise approved by the General Assembly, the Board of Directors and Senior Executives do not have a direct or indirect interest in the transactions and contracts entered into by the Company;
- (g) the Directors will notify the Board of Directors of any direct or indirect interest they may have in the transactions and contracts entered into by the Company, and this notification will be recorded in the minutes of the Board of Directors meeting;
- (h) all transactions with related parties shall be entered into on a competitive basis and all works and contracts with related parties shall be subject to vote in meetings of the Board of Directors and General Assembly meetings of the Company. Directors and Senior Executives may not vote on any decision related to transactions or contracts with the Company in which they hold a direct or indirect interest, whether in the Board of Directors or General Assembly, in accordance with Article 69 of the Companies Law and Article 18 of Corporate Governance;
- (i) the Directors and the Company's Chief Executive Officer shall not have the right to vote on decisions relating to their fees and remuneration; and
- (j) neither the Directors nor any of its Senior Management shall obtain a loan from the Company or its subsidiaries, and the Company shall not guarantee any loan entered into by a Director.

The Directors undertake to:

- (a) record all Board of Directors decisions by means of written minutes of meetings, which shall be signed by the Directors;
- (b) disclose the details of any Related Party transactions in accordance with the Companies' Regulations and the Corporate Governance Regulations in the agenda of the General Assembly meeting in order to allow the Shareholders the chance to approve such Related Party transactions in their General Assembly meetings; and
- (c) comply with the provisions of Articles 69, 70 and 72 of the Companies' Regulations and Article 18 of the Corporate Governance Regulations.

## 12. Legal Information

### 12.1 The Company

L'azurde Company for Jewelry is a joint stock Company established pursuant to Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006G) with Commercial Registration No. 1010221531 on 26/6/1427H (corresponding to 22/7/2006G). The Company's head office and registered office are each located in the Second Industrial Area, St. No. 198, Banks District, P.O. Box 41270, Riyadh 11521, Kingdom of Saudi Arabia. The current capital of the Company is SAR 430,000,000, divided into 43,000,000 ordinary Shares with a fully paid nominal value of SAR 10 per Share. L'azurde Group's principal activities consist of the following three principal business segments (for further details, please see Section 4.7 ("Overview of L'azurde Group's Business")):

- (a) **Manufacturing and production segment:** primarily consisting of the design and production of gold and diamond jewellery, and precious and semi-precious stones;
- (b) **Wholesale segment:** primarily consisting of the wholesale to more than 2,200 independent third-party retailers of gold and diamond jewellery; and
- (c) **Retail segment:** primarily consisting of the selling of diamond jewellery across its own "L'azurde" brand retail shops mainly in the Kingdom, Egypt and the UAE.

### 12.2 Shareholding Structure

The following table summarises the ownership structure of the Company before and after the Offering:

**Table 12.1: Direct Ownership Structure of the Company Pre- and Post-Offering**

| Shareholder                              | Pre-Offering       |                               |                     | Post-Offering      |                               |                     |
|--|--------------------|-------------------------------|---------------------|--------------------|-------------------------------|---------------------|
|  | No. of Shares      | Shareholding (%) <sup>1</sup> | Nominal Value (SAR) | No. of Shares      | Shareholding (%) <sup>1</sup> | Nominal Value (SAR) |
| L'azurde Holding Company                 | 42,970,3322        | 99.93%                        | 429,703,320         | 30,099,000         | 69.998%                       | 300,990,000         |
| Abdullah Abulaziz Al Othaim <sup>3</sup> | 8,167 <sup>4</sup> | 0.019%                        | 81,670              | 1,000 <sup>5</sup> | 0.0023%                       | 10,000              |
| Abdulaziz Saleh Al Othaim <sup>3</sup>   | 7,167              | 0.017%                        | 71,670              | -                  | -                             | -                   |
| Saleh Abdulaziz Al Othaim <sup>3</sup>   | 7,167              | 0.017%                        | 71,670              | -                  | -                             | -                   |
| Khalid Abdulaziz Al Othaim <sup>3</sup>  | 7,167              | 0.017%                        | 71,670              | -                  | -                             | -                   |
| Public                                   | -                  | -                             | -                   | 12,900,000         | 30.0%                         | 129,000,000         |
| Total                                    | 43,000,000         | 100%                          | 430,000,000         | 43,000,000         | 100%                          | 430,000,000         |

Source: The Company

1- The shareholding percentages are rounded.

2- The number of Shares includes the Qualification Share held by non-shareholding Directors of 7,000 shares except for qualifications shares held by Mr Abdullah Abdulaziz Al Othaim (for clarity, Abdullah Abdulaziz Al Othaim is a shareholding Director). Pursuant to the Company's By-Laws, Directors that shall be appointed Post-Offering will own Qualification Shares from the listed shares on the Saudi Stock Exchange. Please see Section 5.1.1 ("Composition of the Board of Directors") for details regarding the Qualification Shares held by each Director.

3- Those Shareholders are the legal owners of the Shares set opposite their names. However, except for Qualification Shares held by Abdullah Abdulaziz Al Othaim, those Shares are beneficially owned by L'azurde Holding.

4- The number of Shares includes the Shares held by Abdullah Abdulaziz Al Othaim as Qualification Shares amounting to 1,000 shares.

5- The number of Shares represents the Shares held by Abdullah Abdulaziz Al Othaim as Qualification Shares.

For further information regarding the Shareholders and the shareholding structure of the Company, please see Section 4.4 ("Current Shareholding Structure").



## 12.3 Subsidiaries

The Company holds direct and indirect ownership interests in the following seven Subsidiaries:

**Table 12.2: List of Subsidiaries**

| No. | Name of Subsidiary                                 | Country of Incorporation | Direct Interest (%) | Indirect Interest (%) | Remaining Ownership  |
|-----|--|--------------------------|---------------------|-----------------------|--|
| 1.  | Almujawharat Almasiah Company                      | Kingdom of Saudi Arabia  | 98%                 | 2%                    | N/A  |
| 2.  | Kenaz Company                                      | Kingdom of Saudi Arabia  | 98%                 | 2%                    | N/A  |
| 3.  | L'azurde Company for Jewellery <sup>1</sup>        | United Arab Emirates     | 99.67%              | 0.33%                 | N/A  |
| 4.  | L'azurde Egypt for Jewellery (LLC)                 | Egypt                    | -                   | 100%                  | N/A  |
| 5.  | L'azurde Company for Jewellery <sup>2</sup>        | United Arab Emirates     | 99%                 | 1%                    | N/A  |
| 6.  | L'azurde for Jewellery <sup>3</sup>                | Qatar                    | 49%                 | -                     | 51% is held by Ms Wafiqah Sultan Al Essa   |
| 7.  | OroEgypt Company for Manufacturing Precious Metals | Egypt                    | 99.125%             | 0.875%                | 0.75% is held by Mr Abdulaziz Saleh Al Othaim, 0.0625% by Mr Saleh Abdulaziz Al Othaim and 0.0625% by Mr Ali Saleh Al Othaim |

Source: The Company

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

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

3- L'azurde for Jewellery is a limited liability company incorporated in the State of Qatar.

For further details regarding the Subsidiaries, please see Section 4.3 ("L'azurde Group Structure").

## 12.4 Government Consents, Licenses and Certificates

L'azurde Group (including its branches) holds several operational and regulatory licenses and certificates from relevant competent authorities which are periodically renewed. The Board members declare that the Company obtained all licenses and certificates necessary to execute its operations to maintain such activities. The following tables list licences and certificates currently held by L'azurde Group:

**Table 12.3: Details of the Commercial Registration Certificates obtained by L'azurde Group**

| Company                                     | Location                             | Type of Entity            | Commercial Registration No. | Registration Date                          | Expiration Date                            |
|---|--------------------------------------|---------------------------|-----------------------------|--|--|
| L'azurde Company for Jewelry                | Riyadh, the Kingdom of Saudi Arabia  | Joint stock company       | 1010221531                  | 26/6/1427H (corresponding to 22/7/2006G)   | 26/6/1437H (corresponding to 4/4/2016G)    |
|   | Riyadh, the Kingdom of Saudi Arabia  | Branch                    | 1010404871                  | 17/4/1435H (corresponding to 18/2/2014G)   | 17/4/1440H (corresponding to 26/12/2018G)  |
|   | Riyadh, the Kingdom of Saudi Arabia  | Branch                    | 1010225625                  | 12/11/1427H (corresponding to 3/12/2006G)  | 12/11/1439H (corresponding to 25/07/2018G) |
|   | Riyadh, the Kingdom of Saudi Arabia  | Branch                    | 1010225638                  | 12/11/1427H (corresponding to 3/12/2006G)  | 12/11/1439H (corresponding to 25/7/2018G)  |
|   | Riyadh, the Kingdom of Saudi Arabia  | Branch                    | 1010364813                  | 9/4/1434H (corresponding to 20/2/2013G)    | 9/4/1440H (corresponding to 18/12/2018G)   |
|   | Riyadh, the Kingdom of Saudi Arabia  | Branch                    | 1010225633                  | 12/11/1427H (corresponding to 3/12/2006G)  | 12/11/1439H (corresponding to 25/7/2018G)  |
|   | Riyadh, the Kingdom of Saudi Arabia  | Branch                    | 1010191690                  | 8/10/1424H (corresponding to 3/12/2003G)   | 30/2/1438H (corresponding to 1/12/2016G)   |
|   | Al Ahsa, the Kingdom of Saudi Arabia | Branch                    | 2251050232                  | 8/3/1434H (corresponding to 20/1/2013G)    | 8/3/1438H (corresponding to 8/12/2016G)    |
|   | Dhahran, the Kingdom of Saudi Arabia | Branch                    | 2052002708                  | 27/4/1436H (corresponding to 17/2/2015G)   | 26/4/1438H (corresponding to 25/1/2017G)   |
|   | Dhahran, the Kingdom of Saudi Arabia | Branch                    | 2052001529                  | 19/11/1430H (corresponding to 7/11/2009G)  | 18/11/1438H (corresponding to 11/8/2017G)  |
|   | Dammam, the Kingdom of Saudi Arabia  | Branch                    | 2050056794                  | 9/10/1428H (corresponding to 21/10/2007G)  | 8/10/1439H (corresponding to 22/6/2018G).  |
|   | Jeddah, the Kingdom of Saudi Arabia  | Branch                    | 4030167429                  | 20/2/1428H (corresponding to 10/3/2007G)   | 20/2/1440H (corresponding to 31/10/2018G)  |
|   | Jeddah, the Kingdom of Saudi Arabia  | Branch                    | 4030184756                  | 17/12/1429H (corresponding to 16/12/2008G) | 17/12/1439H (corresponding to 29/08/2018G) |
|   | Jeddah, the Kingdom of Saudi Arabia  | Branch                    | 4030167428                  | 20/2/1428H (corresponding to 10/3/2007G)   | 20/2/1438H (corresponding to 21/11/2016G)  |
|   | Madinah, the Kingdom of Saudi Arabia | Branch                    | 4650039724                  | 7/9/1428H (corresponding to 19/7/2007G)    | 6/9/1439H (corresponding to 21/5/2018G)    |
| Almujawharat Almasiah Company               | Riyadh, the Kingdom of Saudi Arabia  | Limited liability company | 1010236734                  | 25/7/1428H (corresponding to 8/8/2007G)    | 25/7/1438 (corresponding to 22/4/2017G)    |
| Kenaz Company                               | Riyadh, the Kingdom of Saudi Arabia  | Limited liability company | 1010352574                  | 21/11/1433H (corresponding to 7/10/2012G)  | 21/4/1438H (corresponding to 19/1/2017G)   |
| L'azurde Company for Jewellery <sup>1</sup> | Dubai, United Arab Emirates          | Limited liability company | 620369                      | 17/3/1437H (corresponding to 28/12/2015G)  | 22/3/1438H (corresponding to 22/12/2016G)  |
|   | Dubai, United Arab Emirates          | Branch                    | 230792                      | 19/6/1436H (corresponding to 8/4/2015G)    | 17/7/1437H (corresponding to 27/4/2017G)   |
|   | Dubai, United Arab Emirates          | Branch                    | 565203                      | 6/4/1436H (corresponding to 26/1/2015G)    | 15/4/1437H (corresponding to 25/1/2017G)   |
| L'azurde Egypt for Jewellery LLC            | Cairo, Egypt                         | Limited liability company | 14997                       | 1/5/1426H (corresponding to 8/6/2005G)     | 17/1/1438G (corresponding to 18/10/2016G)  |

| Company  | Location                        | Type of Entity            | Commercial Registration No. | Registration Date                            | Expiration Date                              |
|--|---------------------------------|---------------------------|-----------------------------|--|--|
|  | Assiut, Egypt                   | Branch                    | 4795                        | 10/6/1436H<br>(corresponding to 30/3/2015G)  | N/A  |
|  | Fayoum, Egypt                   | Branch                    | 82631                       | 21/7/1436H<br>(corresponding to 10/5/2015G)  | N/A  |
|  | Tanta, Egypt                    | Branch                    | 82630                       | 21/7/1436H<br>(corresponding to 10/5/2015G)  | N/A  |
| L'azurde Company for Jewellery <sup>2</sup>        | Abu Dhabi, United Arab Emirates | Limited liability company | CN-1060233                  | 10/2/1437H<br>(corresponding to 23/11/2015G) | 21/2/1438H<br>(corresponding to 22/11/2016G) |
|  | Abu Dhabi, United Arab Emirates | Branch                    | CN-1060233-2                | 7/10/1436H<br>(corresponding to 23/7/2015G)  | 17/10/1437H<br>(corresponding to 22/7/2016G) |
| L'azurde for Jewellery <sup>3</sup>                | Doha, Qatar                     | Limited liability company | 60716                       | 11/7/1434H<br>(corresponding to 21/5/2013G)  | 14/8/1437H<br>(corresponding to 21/5/2016G)  |
| OroEgypt Company for Manufacturing Precious Metals | Qalyubia, Egypt                 | Joint stock company       | 7877                        | 14/11/1423H<br>(corresponding to 17/1/2003G) | 5/6/1439H<br>(corresponding to 21/2/2018G)   |

Source: The Company

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

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

3- L'azurde for Jewellery is a limited liability company incorporated in Doha, Qatar.

**Table 12.4: Details of Regulatory Licences and Certificates obtained by L'azurde Group**

| Company  | Issuing Authority  | License Number | Purpose   | Issue Date                                   | Expiry Date                                  |
|--|--|----------------|---|--|--|
| L'azurde Company for Jewellery                     | Riyadh Chamber of Commerce and Industry, the Kingdom of Saudi Arabia | 101000168914   | Chamber of Commerce and Industry membership certificate   | 27/3/1437H<br>(corresponding to 7/1/2016G)   | 26/6/1437H<br>(corresponding to 4/4/2016G)   |
|  | DZIT   | 3000546847     | Zakat clearance certificate                               | 1/7/1436H<br>(corresponding to 20/4/2015G)   | 23/7/1437H<br>(corresponding to 30/4/2016G)  |
|  | GOSI   | 19407898       | Certificate of fulfilment of social insurance obligations | 15/1/1437H<br>(corresponding to 28/10/2015G) | 15/7/1437H<br>(corresponding to 24/4/2016G)  |
|  | Ministry of Labour   | N/A            | Certificate of compliance with Saudisation requirements   | 23/4/1437 H<br>(corresponding to 3/2/2016G)  | 25/7/1437H<br>(corresponding to 3/5/2016G)   |
| L'azurde Company for Jewellery <sup>1</sup>        | Dubai Chamber of Commerce and Industry, United Arab Emirates         | 162032         | Chamber of Commerce and Industry certificate              | 6/3/1436H<br>(corresponding to 28/12/2014G)  | 23/3/1438H<br>(corresponding to 22/12/2016G) |
| L'azurde Egypt for Jewellery LLC                   | Tax Authority, Egypt   | 286-122-286    | Tax card  | 21/5/1429H<br>(corresponding to 26/5/2008G)  | 24/2/1439H<br>(corresponding to 13/11/2017G) |
|  | Sales Tax Authority, Egypt   | 286-122-286    | Sales tax card  | 22/5/1429H<br>(corresponding to 27/5/2008G)  | N/A  |
|  | Qalyubia Chamber of Commerce, Egypt                                  | N/A            | Chamber of Commerce and Industry certificate              | 28/2/1437H<br>(corresponding to 7/2/2016G)   | 2/4/1438H<br>(corresponding to 31/12/2016G)  |
| OroEgypt Company for Manufacturing Precious Metals | Qalyubia Chamber of Commerce   | 5043           | Chamber of Commerce certificate                           | 28/4/1437H<br>(corresponding to 7/2/2016G)   | 2/4/1438H<br>(corresponding to 31/12/2016G)  |
|  | Tax Authority, Egypt   | 205-163-696    | Tax card  | 23/6/1433H<br>(corresponding to 14/5/2012G)  | 17/8/1438H<br>(corresponding to 13/5/2017G)  |

| Company | Issuing Authority          | License Number | Purpose        | Issue Date                                   | Expiry Date |
|---------|----------------------------|----------------|----------------|--|-------------|
|         | Sales Tax Authority, Egypt | 205-163-696    | Sales tax card | 26/12/1423H<br>(corresponding to 27/2/2003G) | N/A         |

Source: The Company

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

**Table 12.5: Details of Operational Licenses obtained by L'azurde Group**

| Company                      | Issuing Authority  | License Number | Purpose  | Issue Date                                    | Expiry Date                                  |
|------------------------------|--|----------------|--|---|--|
| L'azurde Company for Jewelry | Presidency of Meteorology and Environment, the Kingdom of Saudi Arabia | 270U/36/25349  | Environmental consent in relation to the operation of a manufacturing unit | 28/7/1436H<br>(corresponding to 17/5/2015G)   | 28/7/1438H<br>(corresponding to 25/4/2017G). |
|                              | Dhahran Municipality, the Kingdom of Saudi Arabia                      | 436/00690      | Municipality license for the conduct of commercial activities              | 28/3/1436H<br>(corresponding to 19/1/2015G)   | 27/3/1439H<br>(corresponding to 16/12/2017G) |
|                              | Eastern Province Municipality, the Kingdom of Saudi Arabia             | 1418/000936    | Municipality license for the conduct of commercial activities              | 17/6/1418H<br>(corresponding to 20/10/1997G)  | 16/6/1437H<br>(corresponding to 26/3/2016G)  |
|                              | Riyadh Municipality, the Kingdom of Saudi Arabia                       | 27261          | Municipality license for the conduct of commercial activities              | 26/7/1433H<br>(corresponding to 29/4/2001G)   | 26/7/1437H<br>(corresponding to 06/11/2016G) |
|                              | Riyadh Municipality, the Kingdom of Saudi Arabia                       | 7408           | Municipality license for the conduct of commercial activities              | 28/10/1427H<br>(corresponding to 20/11/2006G) | 26/6/1439H<br>(corresponding to 14/3/2018G)  |
|                              | Riyadh Municipality, the Kingdom of Saudi Arabia                       | 7401           | Municipality license for the conduct of commercial activities              | 19/6/1416H<br>(corresponding to 13/11/1995G)  | 19/6/1438H<br>(corresponding to 18/3/2017G)  |
|                              | Riyadh Municipality, the Kingdom of Saudi Arabia                       | 1432           | Municipality license for the conduct of commercial activities              | 24/1/1435H<br>(corresponding to 28/11/2013G)  | 24/1/1438H<br>(corresponding to 26/10/2016G) |
|                              | Riyadh Municipality, the Kingdom of Saudi Arabia                       | 17203          | Municipality license for the conduct of commercial activities              | 24/10/1410H<br>(corresponding to 20/5/1990G)  | 24/10/1437H<br>(corresponding to 30/7/2016G) |
|                              | Riyadh Municipality, the Kingdom of Saudi Arabia                       | 16528          | Municipality license for the conduct of commercial activities              | 5/2/1422H<br>(corresponding to 29/04/2001G)   | 5/2/1438H<br>(corresponding to 6/11/2016G)   |
|                              | Jeddah Municipality, the Kingdom of Saudi Arabia                       | 1000046423     | Municipality license for the conduct of commercial activities              | 19/5/1435H<br>(corresponding to 21/3/2014G)   | 19/5/1438H<br>(corresponding to 16/2/2017G)  |
|                              | Al Ahsa Municipality, the Kingdom of Saudi Arabia                      | 3400295        | Municipality license for the conduct of commercial activities              | 13/1/1434H<br>(corresponding to 27/11/2012G)  | 11/1/1438H<br>(corresponding to 15/10/2016G) |
|                              | Madinah Municipality, the Kingdom of Saudi Arabia                      | 391303340      | Municipality license for the conduct of commercial activities              | 29/6/1436H<br>(corresponding to 19/4/2015G)   | 28/6/1438H<br>(corresponding to 27/3/2017G)  |

| Company | Issuing Authority   | License Number | Purpose  | Issue Date                                    | Expiry Date                                 |
|---------|---|----------------|--|---|---|
|         | MOCI  | 2941           | Industrial license for the operation of a manufacturing unit | 20/10/1436H<br>(corresponding to 6/8/2015G)   | 19/10/1439H<br>(corresponding to 3/7/2018G) |
|         | MOCI  | 11/10101326    | License for the sale of precious metals and stones           | 27/7/1427H<br>(corresponding to 22/8/2006G)   | N/A   |
|         | MOCI  | 11/10102900    | License for the sale of precious metals and stones           | 14/3/1434H<br>(corresponding to 26/01/2013G)  | N/A   |
|         | MOCI  | 11/10101358    | License for the sale of precious metals and stones           | 27/7/1427H<br>(corresponding to 22/8/2006G)   | N/A   |
|         | MOCI  | 11/10103259    | License for the sale of precious metals and stones           | 27/7/1427H<br>(corresponding to 22/8/2006G)   | N/A   |
|         | MOCI  | 11/40301892    | License for the sale of precious metals and stones           | 15/2/1428H<br>(corresponding to 5/3/2007G)    | N/A   |
|         | MOCI  | 11/40301961    | License for the sale of precious metals and stones           | 28/11/1429H<br>(corresponding to 27/11/2008G) | N/A   |
|         | MOCI  | 11/40301893    | License for the sale of precious metals and stones           | 15/2/1428H<br>(corresponding to 05/03/2007G)  | N/A   |
|         | MOCI  | 11/20520007    | License for the sale of precious metals and stones           | 14/11/1430H<br>(corresponding to 2/11/2009G)  | N/A   |
|         | MOCI  | 11/20500509    | License for the sale of precious metals and stones           | 19/9/1428H<br>(corresponding to 1/10/2007G)   | N/A   |
|         | MOCI  | 11/22510307    | License for the sale of precious metals and stones           | 8/3/1434H<br>(corresponding to 20/1/2013G)    | N/A   |
|         | MOCI  | 11/46500617    | License for the sale of precious metals and stones           | 9/9/1428H<br>(corresponding to 10/9/2008G)    | N/A   |
|         | MOCI  | 11/20510250    | License for the sale of precious metals and stones           | 9/4/1436H<br>(corresponding to 30/1/2015G)    | N/A   |
|         | General Directorate of Civil Defence, the Kingdom of Saudi Arabia | 37329000043    | Civil defence license  | 29/4/1437H<br>(corresponding to 7/2/2016G)    | 10/04/1438H<br>(corresponding to 8/1/2017G) |
|         | General Directorate of Civil Defence, the Kingdom of Saudi Arabia | 322            | Civil defence license  | 1/9/1436H<br>(corresponding to 18/6/2015G)    | 1/9/1437H<br>(corresponding to 7/6/2016G)   |
|         | General Directorate of Civil Defence, the Kingdom of Saudi Arabia | 14360105197391 | Civil defence license  | 5/1/1436H<br>(corresponding to 29/10/2014G)   | 5/1/1439H<br>(corresponding to 26/9/2017G)  |

| Company  | Issuing Authority   | License Number | Purpose  | Issue Date                               | Expiry Date                               |
|--|---|----------------|--|--|---|
|  | General Directorate of Civil Defence, the Kingdom of Saudi Arabia | 1287           | Civil defence license                                  | 17/1/1437H (corresponding 31/10/2015G)   | 30/1/1438H (corresponding 1/11/2016G)     |
|  | General Directorate of Civil Defence, the Kingdom of Saudi Arabia | f/11/825       | Civil defence license                                  | 28/1/1437H (corresponding 11/11/2015G)   | 28/1/1440H (corresponding 9/10/2018G)     |
|  | General Directorate of Civil Defence, the Kingdom of Saudi Arabia | 37329-000042   | Civil defence license                                  | 29/4/1437H (corresponding 9/2/2016G)     | 1/4/1438H (corresponding 31/12/2016G)     |
|  | General Directorate of Civil Defence, the Kingdom of Saudi Arabia | 200/C/D        | Civil defence license                                  | 26/1/1437H (corresponding to 9/11/2015G) | 26/1/1438H (corresponding to 28/10/2016G) |
| L'azurde Egypt for Jewellery LLC                   | Ministry of Housing, Utilities and Urban Development, Egypt       | N/A            | Temporary operation licence                            | 19/2/1434H (corresponding to 1/1/2013G)  | 11/4/1439H (corresponding to 29/12/2017G) |
|  | Industrial Development Authority, Egypt                           | 27695/A        | Temporary industrial registration certificate          | 24/7/1436H (corresponding to 13/5/2015G) | 5/8/1437H (corresponding to 12/5/2016G).  |
| L'azurde for Jewellery <sup>1</sup>                | Ministry of Economy and Commerce, Qatar                           | 97429          | Trade license for the conduct of commercial activities | 16/4/1435H (corresponding to 16/2/2014G) | 6/5/1437H (corresponding to 15/2/2016G) 1 |
| OroEgypt Company for Manufacturing Precious Metals | Urban Development Authority, Egypt                                | 5006           | Operation license                                      | 24/6/1422H (corresponding to 12/9/2001G) | N/A                                       |

Source: The Company

1- L'azurde for Jewellery is a limited liability company incorporated in the State of Qatar.

## 12.5 Material Agreements

L'azurde Group has entered into a number of material agreements for the purposes of its business. The following is a summary of those agreements which the Board of Directors consider material or important or which may otherwise influence a Subscriber's decision to invest in the Offer Shares. The Directors believe that all such agreements, in addition to the key provisions thereunder, have been included in this Section and that there are no other agreements which are material in the context of L'azurde Group's business. L'azurde Group has not breached the conditions and undertakings included in such agreements. These summaries do not purport to describe all the applicable terms and conditions of such agreements and are qualified in their entirety by the respective agreements. In addition, please see also Sections 12.6 ("Gold Loans and Financing Agreements"), 12.8.2 ("Lease Agreements") and 12.7 ("Insurance Policies") for details regarding L'azurde Group's gold loans, financing agreements, lease agreements and insurance policies.

The following table sets out the material agreements (except for gold loans, financing agreements, lease agreements and insurance policies) entered in to by members of L'azurde Group for the purposes of their business:

**Table 12.6: Details of Material Agreements**

| Name of Agreement   | Parties   | Brief Description   | Term and Renewable Mechanism   | Value  |
|---|---|---|--|--|
| Agreements with Key Customers                                   |   |   |  |  |
| Wholesale Agreements  | Members of L'azurde Group (as seller) and wholesale activity customers (as purchaser)   | Members of L'azurde Group sell L'azurde their products to the wholesale customers in wholesale transactions   | The term of the agreements is variable, usually ranging from one to three years, renewable automatically or subject to notice/ agreement of the parties. | Wholesale activity customers pay for the gold they purchase by weight, together with a labour service charge on a variable "per gramme" basis, depending on the products technology, collection and designs. |
| Shareholders/Joint Ventures/Partnership/Co-Operation Agreements |   |   |  |  |
| Shareholders' Agreement   | The Company (as beneficial owner) and each of Ali Saleh Al Othaim, Saleh Abdulaziz Al Othaim; and Abdulaziz Saleh Al Othaim (as legal owners) | Legal owners own 75 shares in OroEgypt, and the beneficial ownership is, according to the agreement, transferred to the company as the beneficial owner of such.                            | The agreement is for an indefinite term commencing from 29/2/1434H (corresponding to 1/1/2014G).   | The agreement does not include a cash consideration.   |
| Partnership Agreement   | The Company (as first shareholder) and Wafiqah Sultan S. Al Essa (as second shareholder)  | This agreement regulates the relationship between the two parties as shareholders of L'azurde Qatar.  | The agreement is for a term of 100 years, with automatic renewal.  | The agreement does not include a cash consideration.   |
| Other Material Agreements                                       |   |   |  |  |
| Development and Contracting Agreement                           | L'azurde Egypt (as owner) and Jidaar for Development and Construction S. A. E. (as developer).  | The developer is required to undertake certain architectural, electrical and finishing work at a plant owned by L'azurde Egypt in El Obour City, Qalyoubeya, Egypt.                         | The term of the agreement commences from 30/11/1436H (corresponding to 14/9/2015G) to 23/8/1437H (corresponding to 30/5/2016G). C                        | EGP 26,677,959 (equivalent to SAR 12,782,922)  |
| Technical Services Agreement                                    | L'azurde Egypt (as customer) and Mert Kuyumculuk Sanayi veTicaret Limited Şirketi (as service provider).                                      | L'azurde Egypt produces gold wedding bands for sale in the MENA region and the service provider provides the services and know-how related to the manufacture and production of such works. | The agreement is for a term of 10 years, commencing as from the start of commercial production of related products.                                      | L'azurde Egypt pays a specified price per part calculated on the basis of monthly production of such works.  |

Source: The Company



## 12.5.1 Wholesale Agreements

L'azurde Group entered into a number of wholesale agreements with its sale clients in line with prevailing market practices. Such agreements govern both parties' liabilities, sold products quality, targeted level of sales by the client, product marketing method, credit limit, payment method, sales incentives and discounts. Clients thereby market and sell L'azurde Group's products. Such products include various categories, including, 21k and 18k sets, rings, bracelets and earrings. Such agreements are valid for varying periods. The value of gold jewelries that are sold by L'azurde Group under these agreements is calculated based on: (i) Net gold weight for each product; and (ii) changing labour service charge for each gramme which is determined based on product type, designs and technologies used in manufacturing.

Under these agreements, L'azurde Group's liabilities towards its clients, in general, include the following:

- (a) Providing products in quality and designs agreed upon;
- (b) Providing post-sale services, maintenance and ensuring products quality;
- (c) Providing training, supervision and follow-up services for clients and their employees;
- (d) Conducting advertising and promotional campaigns; and
- (e) Delivering and insuring products until they are received by the client (except for the agreements concluded with the clients in Egypt, as delivery shall be in L'azurde Group's sale outlets).

Under these agreements, clients' liabilities towards L'azurde Group, in general, include the following:

- (a) Sparing no efforts to present and market products and achieve targeted sales;
- (b) Commitment to sell in the geographical area designated for each client; and
- (c) Complying with the credit limit agreed upon and payment within the agreed deadlines.

L'azurde Group does not, commonly, demand collaterals from its clients for supporting accounts receivable. L'azurde Group aims to reduce risks related to safety and transportation risk related to those agreements through products insurance against theft, fire, dishonesty and other risks until they are received and signed by the client. For further information on risks related to those agreements, please refer to section 2.1.11 ("Security, Transport and Fraud Risks") and Section 2.1.16 ("Client Credit Risk") and section 2.1.20("Adequacy of Insurance Coverage")

## 12.5.2 Shareholders' and Partners' Agreements

### 12.5.2.1 Shareholders' Agreements in Relation to OroEgypt

The Company (as the beneficial owner) has entered into a shareholders' agreement on 29/2/1434H (corresponding to 1/1/2014G) in relation to its shareholding in OroEgypt with the other shareholders in the same, Ali Saleh Al Othaim, Saleh Abdulaziz Al Othaim; and Abdulaziz Saleh Al Othaim (as legal owners). Such shareholders hold 75 shares in OroEgypt. The beneficial ownership of such shares shall, according to the agreement, be transferred to the Company as the beneficial owner. Legal owners shall also transfer all financial proceeds generated from such shares to the Company as the beneficial owner, and the Company, in return, shall compensate the legal owners for any damages or losses arising from any liabilities related to their legal ownership of such shares. The agreement shall be for an indefinite term and governed by Laws of the Kingdom of Bahrain and any disputes arising from such agreements shall be settled by arbitration in accordance with the rules of arbitration of the International Chamber of Commerce in Manama, Bahrain.

### 12.5.2.2 Partners' Agreements in Relation to L'azurde Qatar

The Company (as the first partner) has entered into a partnerships agreement on 19/5/1434H (corresponding to 31/3/2013G) in relation to its equity in L'azurde Qatar with the other shareholder in L'azurde Qatar, Wafiqah Sultan S. Al Essa (as the second partner). The agreement governs the relationship between the partners and L'azurde Qatar. The agreement is for an initial term of 100 Gregorian years and will be automatically renewed thereafter, but either party may terminate the agreement with six months' prior notice or immediately in certain situations (including if either party (i) commits a material breach of the agreement, (ii) enters certain insolvency related situations, or (iii) is dissolved or dies). Following termination of the agreement, the Company would have a contractual right to dissolve L'azurde Qatar or to purchase the interests of the second partner. The Company also has a call option to purchase the interests of the second partner at any time if the laws of Qatar change to permit such acquisition. In the event of a dispute between the partners, the Company has a contractual right to require the second partner to transfer her shares to the Company or to a nominated third party.

L'azurde Qatar shall, subject to this agreement, be under administration of (i) an executive committee appointed by the Company and (ii) a general manager supervised by the executive committee. The second partner shall be required to refrain from any activities in competition with L'azurde Qatar and also agrees to provide certain support and management services to L'azurde Qatar. The second partner shall, according to the agreement, receive 2% of the dividends of L'azurde Qatar with the remainder (98%) going to the Company.

The agreement is governed by the laws and regulations of Qatar and any disputes shall be resolved by arbitration under the arbitration regulations of the Qatar International Centre for Arbitration at the Qatar Chamber of Commerce & Industry.

### 12.5.3 Other Agreements

#### 12.5.3.1 Development and Contracting Agreement with Jidaar for Development and Construction S. A. E.

L'azurde Egypt (as customer) has entered into a development and contracting agreement with Jidaar for Development and Construction S. A. E. (as developer) to undertake certain architectural, electrical and finishing work at a plant owned by L'azurde Egypt in El Obour City, Qalyoubeya, Egypt

This is in consideration of 26,677,959 Egyptian pounds (equivalent to SAR 12,782,922). The agreement shall be valid from 30/11/1436H (corresponding to 14/9/2015G) to 23/8/1437H (corresponding to 30/5/2016G). This agreement shall be governed by Egyptian laws. Moreover, any dispute arising therefrom shall be referred to competent courts in Cairo, Egypt.

#### 12.5.3.2 Technical Services Agreement with Mert Kuyumculuk Sanayi veTicaret Limited Sirketi

L'azurde Egypt (as customer) has entered into a technical services agreement with Mert Kuyumculuk Sanayi veTicaret Limited Şirketi (as service provider L'azurde

The service provider shall provide technical services and information related to manufacturing and production of weddings Jewellery. The service provider shall have in return a fixed price for each piece to be calculated based on monthly production volume of such jewelleryes. The agreement shall be valid for ten years as of commercial production of products by L'azurde Egypt. This agreement shall be governed by the French laws. Any dispute arising therefrom shall be settled through arbitration with Dubai International Arbitration Center in Dubai, United Arab Emirates.

## 12.6 Gold Loans and Financing Agreements

The Company has entered into a number of gold loan and finance agreements for the purposes of its business. The following is a summary of such agreements which the Board of Directors considers material or important or which may otherwise influence a Subscriber's decision to invest in the Offer Shares. L'azurde Group has not breached any of the conditions and undertakings included in such agreements. These summaries do not purport to describe all the applicable terms and conditions of such agreements and are qualified in their entirety by the respective agreements.

Certain financing agreements to which the Company is a party include provisions that either require the submission of a prior notification of any change of control or change in the ownership structure of the Company, or when offering the Company's share for public subscription or introducing new provisions that require prior approval of the funding parties. The Company, in this regard, obtained all the consents required from the funding parties for the Offering.

The following table sets out the gold loans and financing agreements entered into by the Company for the purposes of its business:

**Table 12.7: Details of Gold Loans and Financing Agreements**

| Lender                   | Type of Facility                                | Availability Period   | Facility Amount  |
|--------------------------|---|---|------------------|
| National Commercial Bank | Short Term Gold Loans and Short Term Cash Loans | The loan availability period runs from 29/8/1436H (corresponding to 16/6/2015G) until 24/9/1437H (corresponding to 30/6/2016G). | SAR 570,000,000. |
| Saudi Hollandi           | Cash Facilities and Gold Loans                  | The facilities are for an indefinite term and are expected to be renewed on an annual basis.                                    | SAR 682,250,000  |

| Lender                      | Type of Facility                 | Availability Period  | Facility Amount   |
|-----------------------------|----------------------------------|--|---|
| SAMBA Financial Group       | Murabaha Financing Agreement     | The agreement was signed on 11/2/1437H (corresponding to 23/11/2015G) and expires on 24/9/1437H (corresponding to 30/6/2016G). | The lesser of 55,000 troy ounces of gold (denominated in USD) or gold of USD 85,250,000 (equivalent to SAR 320,000,000)       |
| Bank of Nova Scotia         | Gold Loan                        | The agreement was signed on 3/7/1434H (corresponding to 13/5/2013G) and is for an indefinite term.                             | The lesser of 32,000 fine troy ounces of gold (denominated in USD) or gold of USD 60,800,000 (equivalent to SAR 228,000,000). |
| Banque Saudi Fransi         | Gold Loan and Payment Guarantees | The facility was signed on 8/1/1437H (corresponding to 21/10/2015G) and expires on 28/11/1437H (corresponding to 31/8/2016G).  | 45,085 troy ounces of gold and payment guarantees in the amount of SAR 132,000.   |
| Standard Chartered Bank PLC | Master Netting Agreement         | The facility was signed on 27/5/1434H (corresponding to 7/5/2013G) and is for an indefinite term.                              | The facility is for an indefinite amount.   |

Source: The Company

### 12.6.1 Cash and gold facilities agreement with NCB.

The Company concluded facilities agreement with NCB on 29/8/1436H (corresponding to 16/06/2015G), whereby NCB provides fund of SAR 570,000,000. It is composed of: (i) a SAR 553,000,000 tayseer Shari'ah 270-day gold loan facility (denominated in US Dollars) to finance gold inventory utilised in manufacturing, with the profit element paid to NCB calculated as the price of NCB Treasury for lending of gold (which is agreed upon between the Company and the Bank for each transaction) plus a certain margin per year; and (ii) a SAR 17,000,000 tayseer Shari'ah 180-day short-term loan facility to finance raw materials purchases, with the profit element paid to NCB calculated at the relevant Singapore Interbank Offer Rate (SAIBOR) plus a certain margin per year. The agreement was signed and the facilities became available on 29/8/1436H (corresponding to 16/6/2015G) and the facilities expire on 24/9/1437H (corresponding to 30/6/2016G), with NCB having the option to further extend or terminate facilities while claiming the payment of any accrued amounts at any time. The Company considers that this is in line with the prevailing market practices. Guarantees provided under this agreement are as follows:

- Irrevocable personal guarantee provided by Abdulaziz Saleh Al Othaim for NCB (with 22.5% of facilities value available).
- Assignment of related insurance claims for NCB (with 100% of borrowed gold value).
- Mortgaging gold equivalent to facilities value available for NCB.
- Mortgaging all securities and financial assets transferred and deposited with NCB or under its disposition as collateral for facilities value available.
- Undertaking to deposit a margin of cash or gold equivalent to that agreed upon in terms of facilities value available in an account managed by NCB.

The most important financial and operating undertakings given by the Company for NCB, under the agreement, are the following:

- Undertaking that the liquidity percentage shall not be less than 1:1, while net equity shall not be less than SAR 400 million and the financial leverage ratio shall not exceed 1:2.75.
- Undertaking that cash sales returns shall be directed to the Company's account with NCB.
- The Company shall not, under this agreement, distribute dividends if it failed to comply with their undertakings.

NCB accepted the Offering under a letter therefrom, dated 17/12/1436H (corresponding to 1/10/2015G). The agreement is governed by applicable laws in the Kingdom. Any dispute arising therefrom is to be referred to competent courts and bodies, including a banking disputes settlement committee (Banking committee), with NCB holding the right to file lawsuits in other countries.

### 12.6.2 Cash and gold facilities agreement with Saudi Hollandi Bank.

The Company concluded a Shari'ah compliant facilities agreement with Saudi Hollandi Bank, dated 20/10/1436H (corresponding to 5/8/2015G), whereby it provides funds of SAR 682,250,000 composed of: (i) a SAR 5,000,000 overdraft facility, with the profit rate paid at a rate set at Saudi Hollandi's base rate

plus a certain margin, (ii) a SAR 20,000,000 Shari'ah compliant cash financing (tawarruq) with maximum roll-over periods of six months, with the profit rate paid at a rate set at Saudi Hollandi's base rate plus a certain margin, (iii) a SAR 5,000,000 payment guarantee facility in favour of customs authorities in the Kingdom, with the associated costs paid to Saudi Hollandi at a rate set to the relevant SAMA tariff plus a certain margin, (iv) an aggregate SAR 1,000,000 foreign exchange hedging facility, and (v) a gold loan (denominated in USD) of USD 175,000,000 (equivalent to SAR 656,250,000) for a maximum of six months, with a profit element to be paid to Saudi Hollandi at a certain margin for each murabaha transaction. Saudi Hollandi Bank has the right to terminate the facilities and claim the payment of any due amounts at any time. The Company considers that this is in line with the prevailing market practices. Guarantees provided under this agreement are as follows:

- (a) Promissory notes provided by the Company for Saudi Hollandi Bank with facilities value available.
- (b) Assignment of related insurance claims for Saudi Hollandi Bank (with 100% of gold facilities available).
- (c) Irrevocable personal guarantee provided by Abdulaziz Saleh Al Othaim for Saudi Hollandi Bank (for SAR 60 million).
- (d) Assignment of property insurance claims for Saudi Hollandi Bank.
- (e) Undertakings provided by Consortium companies (Investcorp Gulf Opportunity Fund Company 1, Eastgate Mena SPV 5 and Fidelity Invest Owned by The National Investor PJS - One Man Company LLC) to hold their current ownership share in the Company throughout facilities period.

The most important financial and operating undertakings given by the Company for Saudi Hollandi Bank, under the agreement, are the following:

- (a) Undertaking that net tangible shareholders' equity shall not be less than SAR 400 million, while leverage percentage shall not exceed 1.
- (b) Undertaking that at least 20% of annual sales revenue shall be deposited in the Company's account with Saudi Hollandi Bank.
- (c) Undertaking that dividends exceeding 75% of the Company's net profit (after Zakat) shall not be distributed.

Saudi Hollandi Bank approved the Offering, under a letter therefrom, dated 2/2/1436H (corresponding to 16/9/2015G). The agreement is governed by applicable laws in the Kingdom. Any dispute arising therefrom shall be referred to the banking committee.

### 12.6.3 Murabaha financing agreement with SAMBA Financial Group

The Company entered into murabaha financing agreement with SAMBA Financial Group on 11/2/1437H (corresponding to 23/11/2015G), whereby SAMBA Financial Group provides credit facilities through murabaha, comprised of: (i) 55,000 troy ounces of gold (denominated in USD) and (ii) gold of USD 85,250,000 (equivalent of SAR 320,000,000), whichever is less, with profit margin paid to SAMBA Financial Group being calculated on the basis of SAMBA Financial Group plus the bank's profit margin. Facilities shall be terminated by 24/9/1437H (corresponding to 30/6/2016G), and SAMBA Financial Group has the right to terminate facilities and claim the payment of any due amounts at any time. The Company considers that this is in line with the prevailing market practices. Guarantees provided under this agreement are as follows:

- (a) Assignment of related insurance claims for SAMBA Financial Group.
- (b) Irrevocable personal guarantee provided by Abdulaziz Saleh Al Othaim for SAMBA Financial Group (with a value equivalent to available cash facilities).
- (c) Undertaking to deposit cash margin equivalent to a percentage agreed upon in cost value related to murabaha operations in an account managed by SAMBA Financial Group.

The most important financial and operating undertakings given by the Company for SAMBA Financial Group, under the agreement, are the following:

- (a) Undertaking that liquidity percentage shall not be less than 1:1 while net equity shall not be less than SAR 400 million and Debt-Service Coverage Ratio (DSCR) shall not be less than 2.0 times.
- (b) Undertaking that dividends exceeding 75% of Company's net profit (after Zakat) shall not be distributed.

SAMBA Financial Group approved the Offering under a letter therefrom dated 13/2/1437H (corresponding to 25/11/2015G). The agreement shall be governed by applicable laws in the Kingdom. Any dispute arising therefrom shall be referred to competent courts and bodies.

#### 12.6.4 Gold Loan Agreement with Bank of Nova Scotia

On 3/7/1434H (corresponding to 13/5/2013G), the Company concluded a renewable, discretionary (uncommitted) gold loan facility agreement with Bank of Nova Scotia ("BONS"), whereby BONS provides credit facilities, comprised of: (i) 32,000 troy ounces of gold (denominated in USD) or (ii) gold of USD 60,800,000 (equivalent to SAR 228,000,000), whichever is less, with a fixed or variable interest rate, as agreed for each drawdown. The agreement is for an indefinite period, and BONS' consent is required for each drawdown. BONS or the Company may terminate the facility at any time and request repayment of outstanding amounts. The guarantee given under the agreement is the Company's undertaking to deposit a cash margin or letters of guarantee of a value not less than the percentage agreed of the lent (or will be lent) gold to the Company. Approval of BONS with regard to an initial public offering is not required as there is no article in the agreement limiting the Company in this regard. The agreement is governed by English law and disputes will be resolved in the competent English courts, while BONS may enforce its rights, in relation to the agreement, in any country.

#### 12.6.5 Gold Loans and Payment Guarantees with Banque Saudi Fransi

On 08/01/1437H (corresponding to 21/10/2015G), the Company entered into a facility agreement with Banque Saudi Fransi ("BSF"), whereby the BSF provides facilities comprised of: (i) a short-term gold loan for 180 days equivalent to 45.085 troy ounces of gold (denominated in USD) with the profit element paid to BSF calculated on the basis of gold cost value in addition to a variable profit margin, as agreed for each Murabaha; and (ii) payment guarantees in the amount of SAR 132,000 with charges payable to BSF calculated pursuant to a detailed tariff of charges and commissions. Facilities became available as at 08/01/1437H (corresponding to 21/10/2015G) and expire by 28/11/1437H (corresponding to 24/08/2016G). BSF has the option to extend the facility term and the right to terminate facilities and claim the payment of any due amounts at any time. The Company considers that this is in line with the prevailing market practices. Guarantees provided under this agreement are as follows:

- (a) Irrevocable personal guarantee provided by Abdulaziz Saleh Al Othaim for Banque Saudi Fransi (with 50% of facilities value available).
- (b) Assignment of related insurance claims for Banque Saudi Fransi (with 100% of facilities value available).
- (c) Promissory notes provided by the Company for Saudi Hollandi Bank for the available facilities value.
- (d) Undertaking to deposit a margin of cash equivalent to that agreed upon in terms of borrowed gold value in an account managed by Saudi Hollandi Bank.

The most important financial and operating undertakings given by the Company for Saudi Hollandi Bank, under the agreement, are the following:

- (a) Undertaking that net equity shall not be less than SAR 450 million.
- (b) Undertaking that total outstanding gold loans shall not exceed fold inventory and the accounts receivable (of gold).

BSF approved the Offering under a letter therefrom dated 24/12/1436H (corresponding to 08/10/2015G). The agreement is governed by applicable laws of the Kingdom. Any dispute arising therefrom shall be referred to the Kingdom's competent courts and bodies, with BSF holding the right to file lawsuits in other countries.

#### 12.6.6 Standard Chartered Bank LPC Master Netting Agreement

The Company has entered into this master netting agreement with Standard Bank PLC on 27/5/1434H (corresponding to 7/5/2016G) for the netting of facilities, metal loans, and foreign currency exchange transactions from time to time. This agreement was signed and became effective as from the date of signature and shall remain with an indefinite term, with either party having the right to terminate at any time with seven days' notice, subject to settlement of existing obligations. Either party may also terminate the agreement immediately in certain default scenarios such as insolvency and following which all outstanding amounts must be settled immediately. Guarantees provided under this agreement are as follows:

- (a) An undertaking to deposit a cash (or non-cash) margin at Standard Bank Plc. to be specified for each transaction according to the agreement, regulatory rules governing each transaction and as specified by Standard Chartered Bank Plc.
- (b) A pledge of all non-cash margins deposited at Standard Chartered Bank Plc. as collateral for the Company's liabilities under this Agreement.



The most important undertakings granted by the Company to Standard Chartered Bank Plc., under this agreement, include the following:

- (a) An undertaking that the Company would not arrange for any additional collateral for its money deposited at Standard Chartered Bank Plc. for this Agreement.
- (b) An undertaking to maintain specific insurance policies.

Approval of Standard Bank PLC with regard to an initial public offering is not required, as there is no article in the agreement confining the Company in this regard. The Agreement is governed by English law, and any disputes arising therefrom is to referred to competent English courts.

## 12.7 Insurance Policies

L'azurde Group maintains insurance policies covering different types of risks to which it may be exposed. These insurance policies have been issued by several insurance companies inside and outside the Kingdom. The following table sets out the key particulars of the insurance policies held by the Company and its Subsidiaries:

**Table 12.8: Details of Insurance Policies**

| Company  | Types of Coverage  | Insurer  | Validity   | Maximum Insurance Coverage                               |
|--|--|--|--|--|
| L'azurde Company for Jewelry                       | Coverage of directors' and officers' liabilities and corporate liability | The Mediterranean & Gulf Cooperative Insurance & Reinsurance Co. (MEDGULF) | 19/2/1437H (corresponding to 1/12/2015G) to 1/3/1438H (corresponding to 30/11/2016G)   | USD 100,000,000 (equivalent to SAR 375,000,000)          |
|  | Coverage for property risks  | ACE Arabia Cooperative Insurance Company (ACE)                             | 14/9/1436H (corresponding to 1/7/2015G) to 25/9/1437H (corresponding to 30/6/2016G)    | SAR 171,871,213  |
|  | Jewellery block insurance  | ACE Arabia Cooperative Insurance Company (ACE)                             | 14/9/1436H (corresponding to 1/7/2015G) to 26/9/1437H (corresponding to 1/7/2016G)     | USD 20,000,000 (equivalent to SAR 75,000,000) per event  |
|  | Motor vehicle third party insurance                                      | ACE Arabia Cooperative Insurance Company (ACE)                             | 14/9/1436H (corresponding to 1/7/2015G) to 25/9/1437H (corresponding to 30/6/2016G)    | USD 10,000,000 (equivalent to SAR 37,500,000) per event  |
|  | Jewellery block insurance  | ACE Arabia Cooperative Insurance Company (ACE)                             | 14/9/1436H (corresponding to 1/7/2015G) to 26/9/1437H (corresponding to 1/7/2016G)     | USD 80,000,000 (equivalent to SAR 300,000,000) per event |
|  | Motor vehicle comprehensive  | ACE Arabia Cooperative Insurance Company (ACE)                             | 14/9/1436H (corresponding to 1/7/2015G) to 25/9/1437H (corresponding to 30/6/2016G)    | SAR 7,839,500  |
|  | Comprehensive general liability insurance policy.                        | ACE Arabia Cooperative Insurance Company (ACE)                             | 14/9/1436H (corresponding to 1/7/2015G) to 25/9/1437H (corresponding to 30/6/2016G)    | SAR 5,000,000  |
| OroEgypt Company for Manufacturing Precious Metals | Political violence insurance   | Misir Insurance Company  | 7/11/ 1436H (corresponding to 22/8/2015G) to 19/11/1437H (corresponding to 22/8/2016G) | Variable amounts depending on the type of claim          |

| Company   | Types of Coverage  | Insurer                               | Validity   | Maximum Insurance Coverage                           |
|---|--|---------------------------------------|--|--|
|   | Coverage for property risks, cash in transit and fidelity guarantee. | Misr Insurance Company                | 30/10/1436H (corresponding to 15/8/2015G) to 12/11/1437H (corresponding to 15/8/2016G) | Variable amounts depending on the type of claim      |
|   | Vehicle insurance  | Misr Insurance Company                | 9/7/1436H (corresponding to 28/4/2015G) to 21/7/1437H (corresponding to 28/4/2016G)    | Variable amounts depending on the type of claim      |
| L'azurde Egypt for Jewellery (LLC)  | Health insurance   | Prime Health for Medical Services SAE | 21/3/1437H (corresponding to 1/1/2016G) to 2/4/1438H (corresponding to 31/12/2016G)    | Variable amounts depending on the type of claim      |
|   | Health insurance   | Maitlaev Alico                        | 22/4/1437H (corresponding to 1/2/2016) to 3/5/1438H (corresponding to 31/1/2017)       | Different amounts depending on the type of the order |
|   | Health insurance   | Prime Health for Medical Services SAE | 21/3/1437H (corresponding to 1/1/2016GH) to 2/4/1438H (corresponding to 31/12/2016G).  | Variable amounts depending on the type of claim      |
|   | Political violence insurance   | Misr Insurance Company                | 7/11/1436H (corresponding to 22/8/2015G) to 19/11/1437H (corresponding to 22/8/2016G)  | Variable amounts depending on the type of claim      |
|   | Property risks, cash in transit and fidelity guarantee.              | Misr Insurance Company                | 30/10/1436H (corresponding to 15/8/2015G) to 12/10/1437H (corresponding to 15/8/2016G) | Variable amounts depending on the type of claim      |
|   | Health insurance   | Maitlaev Alico                        | 22/4/1437H (corresponding to 1/2/2016) to 3/5/1438H (corresponding to 31/1/2017)       | Different amounts depending on the type of the order |
| L'azurde Company for Jewellery (Dubai <sup>1</sup> and Abu Dhabi <sup>2</sup> ) | Property all risks insurance   | Qatar Insurance Company               | 14/9/1436H (corresponding to 1/7/2015G) to 25/9/1437H (corresponding to 30/6/2016G)    | AED 9,544,985 (equivalent to SAR 9,747,697)          |
|   | Public liability insurance policy (premises risks cover)             | Qatar Insurance Company               | 14/9/1436H (corresponding to 1/7/2015G) to 25/9/1437H (corresponding to 30/6/2016G)    | AED 5,000,000 (equivalent to SAR 5,106,187)          |

Source: The Company

1-L'azurde Company for Jewellery (LLC), a limited liability company incorporated in Dubai, United Arab Emirates.

2- L'azurde Company for Jewellery LLC, a limited liability company incorporated in Abu Dhabi, United Arab Emirates.

In addition, the Company maintains a comprehensive medical healthcare insurance policy with the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (MEDGULF) covering the employees of the Company, and which is renewed at the start of each Gregorian calendar year. L'azurde Group has assigned the right to receive insurance claim payouts under certain of its insurance policies to certain of its creditors.

The Directors believe that L'azurde Group's insurance policies sufficiently cover L'azurde Group and its business. The Company intends to renew such insurance policies regularly to ensure continued insurance coverage.



## 12.8 Real Estate

### 12.8.1 Title Deeds

L'azurde Group owns the following plots of land:

**Table 12.9: Details of Title Deeds**

| Company  | Title Deed Particulars   | Location  | Purpose   |
|--|--|---|---|
| L'azurde Company for Jewelry                       | Title deed number 410120019765 dated 29/4/1432H (corresponding to 3/4/2011G) | Da'kanah District, Riyadh, The Kingdom  | Plot of land with villa with a total size of 700 sqm  |
| OroEgypt Company for Manufacturing Precious Metals | Applicable   | Al-Obour City Zone No.15 Block G, Egypt   | Factory   |
|  | Applicable   | 35A Awaid AlGomhuria Street-Sohag, Egypt  | Retail showroom                                       |
|  | Applicable   | Flat No. 14, Floor No. 6, Zone No. 12 - Block No. 82 - Six Area - Naser City, Egypt | Residential accommodation in the form of an apartment |
| L'azurde Company for Jewellery <sup>1</sup>        | Title deed number A1-V3-23-23A   | Al Thanyah Fifth, Al Mas Tower, Dubai, the UAE                                      | Office  |
|  | Title deed number A1-V3-23-23J   | Al Thanyah Fifth, Al Mas Tower, Dubai, the UAE                                      | Office  |

Source: The Company

1- L'azurde Company for Jewellery (LLC) is a limited liability company incorporated in Dubai, United Arab Emirates.

### 12.8.2 Lease Agreements

The Company and its Subsidiaries have entered into various lease agreements the key particulars of which are set out in the following table:

**Table 12.10: Details of Lease Agreements**

| Lessee                       | Size of Leased Premises (Sqm) | Annual Rent at Commencement of Lease Term                                   | Term of Lease/Renewal Mechanism   | Purpose             |
|------------------------------|-------------------------------|---|---|---------------------|
| L'azurde Company for Jewelry | 12,400                        | SAR 248 (fixed amount in addition to variable service and development fees) | Commencing on 1/6/1428H (corresponding to 16/6/2007G) and ending on 26/8/1452H (corresponding to 22/12/2030G); renewable by mutual agreement of the parties   | Manufacturing plant |
|                              | 72                            | SAR 327,645 (to be increased by 10% every three years)                      | Three Hijri years, commencing on 10/10/1434H (corresponding to 17/8/2013G); automatically renewable   | Retail showroom     |
|                              | 93                            | SAR 1,078,027 (to be increased by 5% annually)                              | Initial term of three Hijri years, commencing on 1/4/1433H (corresponding to 24/2/2012G) and has been extended until 30/3/1439H (corresponding to 19/12/2017G); may be extended unless the Company gives six months' prior notice | Retail showroom     |
|                              | 93                            | SAR 362,750   | Initial term of three Hijri years, commencing on 1/1/1434H (corresponding to 15/11/2012G) has been extended; automatically renewable  | Retail showroom     |

| Lessee | Size of Leased Premises (Sqm) | Annual Rent at Commencement of Lease Term   | Term of Lease/Renewal Mechanism   | Purpose         |
|--------|-------------------------------|---|---|-----------------|
|        | 103                           | SAR 583,238 (to be increased by 5% annually)  | Initial term of three Hijri years, commencing on 21/2/1426H (corresponding 1/4/2005G) has been extended until 20/2/1439H (corresponding to 10/11/2017G); renewable by mutual agreement of the parties | Retail showroom |
|        | 40                            | SAR 121,000   | Three Hijri years, commencing on 1/1/1435H (corresponding to 5/11/2013G); automatically renewable   | Retail showroom |
|        | 106                           | SAR 549,120 (to be increased by 5% annually)  | Three Hijri years, commencing on 28/11/1434H (corresponding to 3/10/2013G); renewable by mutual agreement of the parties  | Retail showroom |
|        | 210                           | SAR 200,000   | Five Hijri years, commencing on 1/9/1435H (corresponding to 29/6/2014G); automatically renewable  | Retail showroom |
|        | 108                           | SAR 704,700 (to be increased by 5% annually)  | Three Hijri years, commencing on 8/2/1436H (corresponding to 1/12/2014G); extended unless the Company gives six months' prior notice  | Retail showroom |
|        | 123.73                        | SAR 75,000  | Five Gregorian years, commencing on 17/7/1428H (corresponding to 1/8/2007G); automatically renewable  | Retail showroom |
|        | 410                           | SAR 3,600,000   | One Hijri year, commencing on 1/5/1436H (corresponding to 20/2/2015G); automatically renewable  | Retail showroom |
|        | 226.60                        | SAR 110,000   | Initial term of five Gregorian years, commencing on 19/9/1428H (corresponding to 1/10/2007G), has been extended; automatically renewable  | Offices         |
|        | N/A                           | SAR 15,000  | Initial term of one Hijri year, commencing on 1/1/1432H (corresponding to 8/12/2010G), has been extended/ renewable by mutual agreement of the parties  | Retail showroom |
|        | 96                            | KWD 56,996.04 (equivalent to SAR 703,519) (for the first three years, to be increased thereafter for years 4 and 5) | Five Gregorian years, commencing on 10/11/1433H (corresponding to 26/9/2012G); renewable by mutual agreement of the parties   | Retail showroom |
|        | N/A                           | SAR 50,000  | Five Hijri years, commencing on 1/1/1433H (corresponding to 27/11/2011G); N/A   | Car workshop    |

| Lessee                             | Size of Leased Premises (Sqm) | Annual Rent at Commencement of Lease Term   | Term of Lease/Renewal Mechanism  | Purpose                           |
|------------------------------------|-------------------------------|---|--|-----------------------------------|
|                                    | N/A                           | SAR 41,000  | Initial term of one Hijri year, commencing on 1/1/1432H (corresponding to 8/12/2010G); has been extended; N/A  | Offices                           |
|                                    | 56                            | SAR 112,000   | Initial term of one Hijri year, commencing on 1/1/1436H (corresponding to 25/11/2014G) has been extended; renewable by mutual agreement of the parties | Retail showroom                   |
|                                    | 350                           | SAR 52,500  | One Hijri year, commencing on 18/10/1436H (corresponding to 4/8/2015G); automatically renewable  | Warehouse                         |
|                                    | 47                            | SAR 428,400   | Initial term of one Hijri year, commencing on 1/2/1436H (corresponding to 23/11/2014G); renewable by mutual agreement of the parties                   | Retail showroom                   |
|                                    | N/A                           | KWD 1,800 (equivalent to SAR 22,217)  | Initial term of one Gregorian year, commencing on 9/2/1436H (corresponding to 1/12/2014G); automatically renewable                                     | Administrative offices            |
|                                    | N/A                           | USD 18,000 (equivalent to SAR 67,500)   | Ten Gregorian years, commencing on 7/6/1435H (corresponding to 7/4/2014G); renewable by mutual agreement of the parties                                | Offices                           |
|                                    |                               |   |  |                                   |
| L'azurde Egypt for Jewellery (LLC) | 5570.93                       | EGP 1,200,000 (equivalent to SAR 574,820) (to be increased by 10% annually and by 25% of the initial rent upon completion of certain construction phases) | Ten Gregorian years, commencing on 12/6/1436H (corresponding to 1/4/2015G); N/A  | Manufacturing plant               |
|                                    | 6183.3                        | EGP 756,000 (equivalent to SAR 362,137) (to be increased by 5% annually and by 7% as at 1/8/2016G (corresponding to 27/10/1437H))                         | Nine Gregorian years, commencing on 13/9/1433H (corresponding to 1/8/2012G); N/A   | Manufacturing plant               |
|                                    | 233                           | EGP 300,000 (equivalent to SAR 143,705) (to be increased by 10% annually)   | Five Gregorian years, commencing on 14/8/1436H (corresponding to 1/6/2015G); renewable by mutual agreement of the parties                              | Administrative offices and outlet |

| Lessee   | Size of Leased Premises (Sq.m) | Annual Rent at Commencement of Lease Term   | Term of Lease/Renewal Mechanism  | Purpose                             |
|--|--------------------------------|---|--|-------------------------------------|
|  | 165                            | EGP 240,000 (equivalent to SAR 114,964) (to be increased by 10% annually as at 1/2/2019G (corresponding to 26/5/1440H))             | Nine Gregorian years, commencing on 12/4/1436 (corresponding to 1/2/2015G); renewable by mutual agreement of the parties               | Retail showroom and outlet          |
|  | N/A (one apartment)            | EGP 54,000 (equivalent to SAR 25,866) (to be increased by 10% annually)   | Three Gregorian years, commencing on 26/6/1436H (corresponding to 15/4/2015G); renewable by mutual agreement of the parties            | Staff housing                       |
|  | N/A (one unit)                 | EGP 300,000 (equivalent to SAR 143,705) (to be increased by 7% annually for the first five years and thereafter by 10% annually)    | Seven Gregorian years, commencing on 12/6/1436H (corresponding to 1/4/2015G); N/A  | Administrative offices and showroom |
| OroEgypt Company for Manufacturing Precious Metals | 90 (six premises of 15 each)   | EGP 28,800 (equivalent to SAR 13,793) (to be increased by 10% annually)   | Ten Gregorian years, commencing on 28/2/1432H (corresponding to 1/2/2011G); renewable by mutual agreement of the parties               | Staff facilities                    |
|  | N/A (three premises)           | EGP 15,840 (equivalent to SAR 7,587) (to be increased by 10% annually)  | Eight Gregorian years, commencing on 22/8/1434H (corresponding to 1/7/2013G); renewable by mutual agreement of the parties             | Staff facilities                    |
|  | 270                            | EGP 108,000 (equivalent to SAR 51,733) (to be increased by 5% annually)   | Nine Gregorian years, commencing on 6/1/1433H (corresponding to 1/12/2011G); renewable by mutual agreement of the parties              | Administrative offices              |
|  | N/A (one flat)                 | EGP 72,000 (equivalent to SAR 34,389) (to be increased by 10% annually)   | Seven Gregorian years, commencing on 27/5/1432H (corresponding to 1/1/2011G); renewable by mutual agreement of the parties             | Administrative offices              |
|  | 59                             | USD 84,960 (equivalent to SAR 318,600)  | Five Gregorian years from the rent commencement date, which was at the earliest 3/10/1433H (corresponding to 21/8/2012G); N/A          | Retail showroom                     |
|  | N/A (one apartment)            | EGP 60,000 (equivalent to SAR 28,741) for the first five years, to be increased thereafter to EGP 66,000 (equivalent to SAR 31,615) | Nine Gregorian years, commencing on 1/1/1434H (corresponding to 15/11/2012G); renewable by mutual agreement of the parties             | Administrative offices              |
|  | N/A (one apartment)            | EGP 8,400 (equivalent to SAR 4,023)   | Initial term of one Gregorian year, commencing on 25/10/1434H (corresponding to 1/9/2013G), has been extended; automatically renewable | Archive                             |

| Lessee                                      | Size of Leased Premises (Sq.m) | Annual Rent at Commencement of Lease Term                               | Term of Lease/Renewal Mechanism   | Purpose                |
|---|--------------------------------|---|---|------------------------|
|   | N/A (one plot)                 | EGP 36,000 (equivalent to SAR 17,244) (to be increased by 10% annually) | Three Gregorian years, commencing on 2/7/1435H (corresponding to 1/5/2014G); N/A  | Warehouse              |
|   | 200                            | EGP 14,400 (equivalent to SAR 6,897) (to be increased by 10% annually)  | Initial term of one Gregorian year, commencing on 18/6/1431H (corresponding to 1/6/2010G), has been extended; automatically renewable at lessee's request | Warehouse              |
|   | N/A                            | EGP 15,600 (equivalent to SAR 7,472)                                    | Initial term of one Gregorian year, commencing on 27/6/1429H (corresponding to 1/7/2008G), has been extended; renewable                                   | Warehouse              |
| L'azurde Company for Jewellery <sup>1</sup> | 48                             | AED 165,048 (equivalent to SAR 161,615)                                 | One Gregorian year, commencing on 21/3/1437H (corresponding to 1/1/2016G); renewable by mutual agreement of the parties                                   | Administrative offices |
|   | 112                            | AED 413,414 (equivalent to SAR 404,815)                                 | One Gregorian year, commencing on 21/3/1437H (corresponding to 1/1/2016G); renewable by mutual agreement of the parties                                   | Administrative offices |
|   | 40                             | AED 78,000 (equivalent to SAR 79,656)                                   | One Gregorian year, commencing on 21/3/1437H (corresponding to 1/1/2016G); automatically renewable  | Retail showroom        |
|   | N/A (one showroom)             | AED 37,000 (equivalent to SAR 37,785)                                   | One Gregorian year, commencing on 15/12/1435H (corresponding to 9/10/2014G); N/A  | Retail showroom        |
| L'azurde Company for Jewellery <sup>2</sup> | 55.8                           | AED 193,796 (equivalent to SAR 197,911)                                 | Three Gregorian years, commencing on 15/6/1436H (corresponding to 5/4/2015G); renewable for two similar terms   | Retail showroom        |
|   | 71.5                           | AED 230,000 (equivalent to SAR 234,884)                                 | One Gregorian year, commencing on 23/10/1436H (corresponding to 10/6/2015G); N/A  | Retail showroom        |
| L'azurde for Jewellery <sup>3</sup>         | 150                            | QAR 300,000 (equivalent to SAR 309,081)                                 | Three Gregorian years, commencing on 25/10/1434H (corresponding to 1/9/2013G); renewable by mutual agreement of the parties                               | Administrative offices |
| Total annual rents                          |                                | equivalent to SAR 12,432,448  |   |                        |

Source: The Company

1 L'azurde Company for Jewellery is a limited liability company incorporated in Dubai, United Arab Emirates.

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

3 L'azurde for Jewellery is a limited liability company incorporated in Qatar.

## 12.9 Related Party Contracts and Transactions

Except for contracts and agreements entered into with the Subsidiaries, there are no material Related Party transactions, contracts or agreements that may, collectively or individually, have significant operational influence. The Directors believe that any transactions with Subsidiaries and Related Parties have been entered into on an arm's length basis.

## 12.10 Conflicts of Interests

As at the date of this Prospectus, the Directors do not have a conflict of interest in relation to contracts and/or transactions entered into with the Company, and none of them was engaged in any activities similar to, or competing with, the Company's activities.

## 12.11 Intellectual Property

### 12.11.1 Trademarks

The Company and its Subsidiaries have registered a number of trademarks on which they rely as a brand for their respective businesses. As at the date of this Prospectus, the "L'azurde" trademark and certain other trademarks derived from the "L'azurde" brand have been registered in 54 countries.

The following table sets out the countries where L'azurde Group has registered the "L'azurde" trademark:

**Table 12.11: Countries in which the L'azurde Trademark is Registered**


| No. | The country where the trademark is registered | No. | The country where the trademark is registered |
|-----|---|-----|---|
| 1   | The Kingdom                                   | 28  | Belgium                                       |
| 2   | UAE   | 29  | Bulgaria                                      |
| 3   | Bahrain                                       | 30  | Croatia                                       |
| 4   | Kuwait  | 31  | Poland  |
| 5   | Lebanon                                       | 32  | Spain   |
| 6   | Qatar   | 33  | Cyprus  |
| 7   | Gaza Strip                                    | 34  | Czech Republic                                |
| 8   | Oman  | 35  | Denmark                                       |
| 9   | Jordan  | 36  | Estonia                                       |
| 10  | West Bank                                     | 37  | Portugal                                      |
| 11  | Turkey  | 38  | Sweden  |
| 12  | Syria   | 39  | Finland                                       |
| 13  | Yemen   | 40  | France  |
| 14  | Algeria                                       | 41  | Germany                                       |
| 15  | Egypt   | 42  | Greece  |
| 16  | Iran  | 43  | Romania                                       |
| 17  | Hong Kong                                     | 44  | UK  |
| 18  | Morocco                                       | 45  | Hungary                                       |
| 19  | Tunisia                                       | 46  | Ireland                                       |
| 20  | Japan   | 47  | Italy   |
| 21  | China   | 48  | Latvia  |
| 22  | Pakistan                                      | 49  | Slovakia                                      |
| 23  | The United States of America                  | 50  | Lithuania                                     |

| No. | The country where the trademark is registered | No. | The country where the trademark is registered |
|-----|---|-----|---|
| 24  | Canada  | 51  | Luxembourg                                    |
| 25  | Singapore                                     | 52  | Malta   |
| 26  | Switzerland                                   | 53  | Netherlands                                   |
| 27  | Austria                                       | 54  | Slovenia                                      |



Source: The Company


The following table sets out certain key particulars of all the trademarks under L'azurde Group in the Kingdom and Egypt:

**Table 12.12: Details of Trademarks Registered in the Kingdom and Egypt**

| Company                      | Country of Registration | Trademark | Status/Expiry Date  | Class | Logo  |
|------------------------------|-------------------------|-----------|---|-------|---|
| L'azurde Company for Jewelry | Saudi Arabia            | L'AZURDE  | Registered on 5/3/1433H (corresponding to 28/1/2012G)/ valid until 25/5/1442H (corresponding to 9/1/2021G)    | 14    |    |
|                              | Saudi Arabia            | REHLATI   | Registered on 9/6/1435H (corresponding to 9/4/2014G)/ valid until 22/2/1445H (corresponding to 7/9/2023G)     | 14    |    |
|                              | Saudi Arabia            | REHLATI   | Registered on 9/6/1435H (corresponding to 9/4/2014G)/ valid until 22/2/1445H (corresponding to 7/9/2023G)     | 14    |  |
|                              | Saudi Arabia            | JUMAN     | Registered on 17/2/1436H (corresponding to 9/12/2014G)/ valid until 23/6/1445H (corresponding to 5/1/2024G)   | 14    |  |
|                              | Saudi Arabia            | KENAZ     | Registered on 22/2/1436H (corresponding to 14/12/2014G)/ valid until 15/7/1445H (corresponding to 25/1/2024G) | 14    |  |
|                              | Saudi Arabia            | KENAZ     | Registered on 22/2/1436H (corresponding to 14/12/2014G)/ valid until 15/7/1445H (corresponding to 25/1/2024G) | 14    |  |



| Company | Country of Registration | Trademark | Status/Expiry Date   | Class | Logo  |
|---------|-------------------------|-----------|--|-------|---|
|         | Saudi Arabia            | JOMAN     | Registered on 20/1/1426H (corresponding to 28/2/2005G)/ valid until 21/3/1445H (corresponding to 4/10/2023G)     | 14    |    |
|         | Saudi Arabia            | L'AZURDE  | Registered on 04/02/1415H (corresponding to 12/07/1994G)/ valid until 27/08/1444H (corresponding to 18/03/2023G) | 14    |    |
|         | Saudi Arabia            | L'AZURDE  | Registered on 04/02/1415H (corresponding to 12/07/1994G)/ valid until 27/08/1444H (corresponding to 18/03/2023G) | 14    |    |
|         | Saudi Arabia            | L'AZURDE  | Registered on 28/10/1416H (corresponding to 18/03/1996G)/ valid until 2/3/1446H (corresponding to 05/09/2024G)   | 14    |   |
|         | Saudi Arabia            | L'AZURDE  | Registered on 28/10/1416H (corresponding to 18/03/1996G)/ valid until 2/3/1446H (corresponding to 05/09/2024G)   | 14    |  |
|         | Saudi Arabia            | KEENAZ    | Registered on 28/10/1416H (corresponding to 18/03/1996G)/ valid until 2/3/1446H (corresponding to 05/09/2024G)   | 14    |  |
|         | Saudi Arabia            | L'AZURDE  | Registered on 30/10/1417H (corresponding to 09/03/1997G)/ valid until 2/5/1446H (corresponding to 03/11/2024G)   | 35    |  |

| Company | Country of Registration | Trademark | Status/Expiry Date   | Class | Logo  |
|---------|-------------------------|-----------|--|-------|---|
|         | Saudi Arabia            | L'AZURDE  | Registered on 30/10/1417H (corresponding to 09/03/1997G)/ valid until 2/5/1446H (corresponding to 03/11/2024G) | 42    |  |

Source: The Company

## 12.11.2 L'azurde Other Intellectual Properties

The Company has registered a number of internet domain names under its name. The following table sets out the details of the internet domain names registered under the Company's name:

**Table 12.13: Details of Internet Domain Names**

| Internet Domain Name | Expiry Date                               |
|----------------------|---|
| www.lazurde.com      | 9/11/1439H (corresponding to 22/7/2018G ) |
| www.lazurde.cc       | 5/12/1437H (corresponding to 6/9/2016G )  |
| www.lazurde.tv       | 5/12/1437H (corresponding to 6/9/2016G)   |
| www.lazurde.biz      | 4/12/1437H (corresponding to 5/9/2016G)   |
| www.lazurde.info     | 5/12/1437H (corresponding to 6/9/2016G)   |
| www.lazurde.org      | 5/12/1437H (corresponding to 6/9/2016G)   |
| www.lazurde.net      | 1/1/1438H (corresponding to 2/10/2016G)   |

Source: The Company

## 12.12 Litigation

L'azurde Group is not involved in any material litigations, lawsuits, actual or possible complaints, or existing proceedings, which would, individually or collectively, have a material effect on the Company, nor it is aware of any threatened or pending material litigation or any facts which, individually or collectively, give rise to a material risk of material litigation, except for the following:

### 12.12.1 L'azurde Dubai Customs

L'azurde Dubai is currently in negotiation with Dubai Customs over a refund of AED 5,000,000 (equivalent to SAR 5,106,187) in prepaid customs duties, which L'azurde Dubai considers is owed to it. There has been ongoing negotiation and correspondence between the two parties, but no guarantee can be given that the matter will be settled in favour of L'azurde Dubai without the issuance of proceedings or at all.

### 12.12.2 L'azurde Dubai v Hassan Arab Cheraghali

L'azurde Dubai has issued a claim in the Dubai courts numbered 3315/2014 in 2014G against Hassan Arab Cheraghali in an amount of AED 3,418,318 (equivalent to SAR 3,490,914) in respect of a bounced cheque given for goods purchased during 2009G by Hassan Arab Cheraghali from L'azurde Dubai. The Dubai courts have since granted a judgement in favour of L'azurde Dubai sentencing Hassan Arab Cheraghali to two year's imprisonment. The judgement has not yet been enforced as Hassan Arab Cheraghali appears to have left the region and L'azurde Dubai has not recouped (and does not expect to recoup) the sum awarded to it.

### 12.12.3 L'azurde Dubai v Ghaghda Hemendra Mulji

L'azurde Dubai has issued a claim in the Dubai courts numbered 11234/2015 in 2015G against Ghaghda Hemendra Mulji in an amount of AED 2,200,200 (equivalent to SAR 2,246,927) in respect of a bounced cheque given for goods purchased during 2012G by Ghaghda Hemendra Mulji from L'azurde Dubai. The Dubai courts have since granted a judgement in favour of L'azurde Dubai sentencing Ghaghda Hemendra Mulji to one year's imprisonment. The judgement has not yet been enforced as Ghaghda

Hemendra Mulji appears to have left the region and L'azurde Dubai has not recouped (and does not expect to recoup) the sum awarded to it.

#### **12.12.4 L'azurde Dubai v Majeed Redha Tanzifian**

L'azurde Dubai has issued a claim in the Dubai courts numbered 41538/2014 in 2014G against Majeed Redha Tanzifian in an amount of AED 2,000,000 (equivalent to SAR 2,042,475) in respect of a bounced cheque given for goods purchased during 2010G by Majeed Redha Tanzifian from L'azurde Dubai. The Dubai courts have since granted a judgement in favour of L'azurde Dubai sentencing Majeed Redha Tanzifian to one year's imprisonment. The judgement has not yet been enforced as Majeed Redha Tanzifian appears to have left the region and L'azurde Dubai has not recouped (and does not expect to recoup) the sum awarded to it.

#### **12.12.5 L'azurde Dubai v Kashif Ali Safdan Ali**

L'azurde Dubai has issued a claim with the Dubai police numbered 49/2008 in 22/9/1429H (corresponding to 22/9/2008G) against Kashif Ali Safdan Ali in an amount of AED 1,292,400 (equivalent to SAR 1,319,847) in respect of a bounced cheque given for goods purchased during 2008G by Kashif Ali Safdan from L'azurde Dubai. The Dubai police have issued an arrest warrant against Kashif Ali Safdan which remains outstanding as Kashif Ali Safdan appears to have left the region and L'azurde Dubai has not recouped (and does not expect to recoup) the amounts at stake.

#### **12.12.6 L'azurde Abu Dhabi v Babaker Othman Babker**

L'azurde Abu Dhabi has issued a claim with the Abu Dhabi courts numbered 192/2015 and 1851/2013 in 2013G against Babaker Othman Babker in an amount of AED 1,258,220 (equivalent to SAR 1,284,941) in respect of a bounced cheque given for goods purchased during 2008G by Babaker Othman Babker from L'azurde Abu Dhabi. The Abu Dhabi courts have since granted a judgement in favour of L'azurde Abu Dhabi in the total amount sought and issuing an arrest warrant for Babaker Othman Babker. The judgement has not yet been enforced as Babaker Othman Babker appears to have left the region and L'azurde Abu Dhabi has not recouped (and does not expect to recoup) the sum awarded to it.

The total values of the above cases represent approximately less than 0.2% of the total sales of each corresponding year, or the equivalent of average annual loss of SAR 1.3 million, and were fully charged to the results of operations of the Company as bad debts. Therefore, no negative financial impacts resulting from such debts will be shown under the future results of operations of the Company.

### **12.13 Summary of By-Laws**

#### **12.13.1 Name of the Company**

The name of the Company is "L'azurde Company for Jewelry", a joint stock company.

#### **12.13.2 Objects of the Company**

The Company's objects are:

- (a) the production, manufacturing, forming and forging of gold wares, jewellery, precious stones, gold alloys and gold sets formed with precious stones;
- (b) the wholesale and retail trading in precious metals and stones and gold wares and jewellery;
- (c) the participation in establishing other companies by way of holding controlling interests therein;
- (d) the wholesale and retail trading in gold and jewellery machinery;
- (e) the production and distribution of accessories, glasses, watches, pens, perfumes and leather products;
- (f) the export of gold wares, and gold and silver alloys;
- (g) the production, manufacturing and sale of diamond and diamond wares; and
- (h) the maintenance, cleaning and operation of buildings, factories and gold and jewellery machinery.

#### **12.13.3 Participation**

The Company may have an interest, or otherwise participate in any manner with other entities or companies that carry out similar activities or that may assist the Company in the realisation of its objects.

The Company may also hold shares in other existing companies or may merge with, or acquire, these companies.

The Company may also have an interest, or participate, in any manner with other companies provided that such participation shall not exceed: (i) 20% of the Company's free reserves; and (ii) 10% of the capital of the company in which it shall participate. The total amount of such participations shall not exceed the value of the Company's free reserves. The Ordinary General Assembly shall be so notified at its next meeting.

#### **12.13.4 Head Office of the Company**

The head office of the Company is in the city of Riyadh. The Board of Directors may establish branches, offices or agencies for the Company within or outside the Kingdom.

#### **12.13.5 Duration of the Company**

The term of the Company shall be 99 years commencing from the date of issue of the resolution of the Minister of Commerce and Industry announcing the Company's incorporation. The term of the Company may always be extended by a resolution issued by the Extraordinary General Assembly at least one year prior to the expiration of its term.

#### **12.13.6 Company's Share Capital**

The Company's share capital shall be SAR 430,000,000 divided into 43,000,000 Shares, with an equal nominal value of SAR 10 each, all of which are ordinary shares.

#### **12.13.7 Capital Subscription**

The Shareholders have subscribed to all of the Company's shares amounting to 43,000,000 Shares and have paid the value of the Shares in full.

#### **12.13.8 Unpaid Value of Shares**

If a Shareholder fails to pay the value of a Share when it falls due, the Board of Directors may, after giving such Shareholder notice by registered mail sent to his address specified in the Shareholders' register, sell such Shares in a public auction. Nevertheless, a defaulting Shareholder may, up to the date fixed for the public auction, pay the outstanding value of the Share plus all expenses incurred by the Company. The Company shall recover from the proceeds of the sale such amounts as are due to it and shall refund the balance to the Shareholder. If the proceeds of the sale fall short of the amounts due, the Company shall have a claim on the assets of the Shareholder for the unpaid balance. The Company shall cancel the Share so sold and issue the purchaser a new Share certificate bearing the serial number of the cancelled Share, and make a notation to that effect in the Shareholders' register.

#### **12.13.9 Nominal Share Value**

The Shares shall be nominal shares, and may not be issued at less than their nominal value. However, the Shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added to the statutory reserve, even if such reserve has reached its maximum limit. A Share shall be indivisible vis-à-vis the Company. In the event that a Share is owned by several persons, they shall select one person from amongst themselves to exercise, on their behalf, the rights pertaining to such Share, and they shall be jointly responsible for the obligations arising from the ownership of such Share.

#### **12.13.10 Transferability of the Shares Ownership**

All Shares shall be transferable after the certificate issuance. As an exception to the foregoing, the Shares, that are given in exchange for in kind or cash shares subscribed for by the founders, shall not be transferable before the publication of the balance sheet and profit/loss account for two complete fiscal years, each of them shall not be less than 12 months, from the date of the Company's incorporation. Such provisions shall apply to any Shares subscribed for by the founders in case the capital is increased before the lapse of such lock-up period, for the remaining duration of this period. The instruments shall contain information regarding the nature of the Shares, the date on which the Company was incorporated and the duration of the lock-up period. However, title to the cash Shares may be transferred during the lock-up period in accordance with the provisions regarding the sale of rights, by one of the founders to another or to a Director to present such Shares as a guarantee for his management or by the heirs of a deceased founder to third parties.

### **12.13.11 Shareholders Register**

The nominal Shares shall be transferred by registration in the Shareholders' register, which shall contain the names of the Shareholders, their nationalities, their occupations, their domicile and address, the serial numbers of the Shares and the paid-up value of such Shares. The Shares shall contain such registration information and the transfer of title to a Share shall not be effective vis-à-vis the Company or any third party except from the date of such recording in the said register or the completion of the transfer process through the automated share information system. The subscription or ownership of the Shares by a Shareholder shall mean the acceptance by the Shareholder of the Company's By-Laws and his submission to the resolutions duly passed by the General Assembly in accordance with the By-Laws, whether the Shareholder was present or absent and whether the Shareholder agreed to such resolutions or objected to them.

### **12.13.12 Share Certificates**

The Company shall issue Share certificates with serial numbers. The Share certificates shall be signed by the Chairman, or by an authorised member of the Board of Directors on the Chairman's behalf, and stamped with the Company's stamp. The Share certificate shall, in particular, show the number and date of the ministerial resolution authorising the incorporation of the Company as a joint stock company, the number and date of the ministerial resolution announcing the incorporation of the Company, the value of the share capital, the number of distributed Shares, the value of nominal Shares, the paid amount therefrom, the Company objects in brief, the head office and the term. The Shares may have coupons with serial numbers, and each coupon shall bear the number of the Share to which it is attached.

### **12.13.13 Increase of Share Capital**

The Extraordinary General Meeting may, based on the economic feasibility of a capital increase and after receiving the approval of the competent authorities, resolve to increase the Company's capital once or more by issuing new shares with the same nominal value as the original Shares, provided that the original capital shall have been paid up in full with due consideration to the requirements of the Companies' Regulations. Such resolution shall specify the manner in which the capital shall be increased. The Shareholders shall have pre-emptive rights to subscribe for the new cash shares. The original Shareholders shall be notified of the pre-emptive rights vested in them by a notice to be published in a daily newspaper reporting the capital increase resolution and the conditions of subscription. Each such Shareholder shall express the desire to exercise such pre-emptive rights, if they so wish, within 15 days of the publication of such notice.

The said new shares shall be allotted to the original Shareholders who have expressed their desire to subscribe thereto, in proportion to the original Shares owned by them, provided that the number of new shares allotted to them shall not exceed the number of new shares they have applied for. The remaining new shares shall be allotted to the Shareholders who have asked for more than their proportionate share, in proportion to the original Shares they own, provided that their total allotment does not exceed the number of new Shares they have asked for. Any remaining new shares shall be offered for public subscription.

### **12.13.14 Decrease of Share Capital**

The Extraordinary General Assembly may, for valid reasons and after obtaining the approval of the Minister of Commerce and Industry, resolve to reduce the Company's capital if it proves to be in excess of its needs or if the Company has incurred losses. Such resolution shall not be adopted except after considering the auditors' report on the reasons for, and effects of, such a reduction, with due consideration to the provisions of the Companies' Regulations. The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to it being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within 60 days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents of such debt within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

### **12.13.15 Preferred Shares**

The Company may, after the consent of the Minister of Commerce and Industry and according to the principles set by him, issue preferred shares that do not entitle their holders voting rights, at no more than 50% of the Company's share capital. In addition to receiving a portion of the net profits distributed to the ordinary Shares, these preferred shares shall, entitle its holders the following:

- (a) the right to receive a certain percentage of the net profits of not less than 5% of the nominal value of the share after statutory reserve deductions and prior to any profit distribution; and
- (b) a priority in recovering the value of their shares in the share capital upon liquidation of the Company, and to receive a certain percentage of the liquidation.

The Company may purchase these preferred shares in accordance with the principles set by the Minister of Commerce and Industry. These shares shall not be calculated as part of the quorum necessary for convening the Company's General Assembly as set forth in the By-Laws.

#### **12.13.16 Board of Directors**

The Company shall be managed by a Board of Directors consisting of nine members to be appointed by the Ordinary General Assembly for a term not exceeding three years.

#### **12.13.17 Qualification Share**

Each Director shall hold Shares with a nominal value of no less than SAR 10,000. Such Shares shall be deposited in a bank designated by the Minister of Commerce and Industry within 30 days from the date of the appointment of the Director. Such Shares shall be kept aside to guarantee the liability of the Directors and shall remain non-negotiable until the expiry of the period specified for hearing a liability action provided for under Article 76 of the Companies' Regulations or until a judgment is passed on said action. Should a Director fail to submit such Qualification Shares within the period specified therefore, his membership in the Board shall be deemed null and void.

#### **12.13.18 Membership of the Board of Directors**

A Director's membership in the Board shall be terminated upon the expiry of the Board's term or upon the termination of that Director's membership in the Board pursuant to any applicable laws or regulations in the Kingdom. If the seat of a Director becomes vacant, the Board may appoint a temporary Director in his replacement, provided that such appointment is presented before the next Ordinary General Assembly. The term of office of the new Director designated to fill a vacancy shall extend to the term of office of his predecessor.

If the number of Directors falls below the quorum required for convening the Board meetings, the Ordinary General Assembly shall be called upon as soon as possible in order to appoint the necessary number of Directors.

#### **12.13.19 Powers of the Board**

Without prejudice to the powers conferred on the General Assembly, the Board shall be vested with the widest powers to manage the Company and supervise its affairs within and outside the Kingdom. It may, for example, represent the Company in its relations with others and with government authorities, private entities, Shariah Courts, judicial authorities, Board of Grievances, Directorate of Civil Rights, labour offices, high and primary committees, negotiable instruments committees and all other judicial committees, arbitration panels, police departments, Chambers of Commerce and Industry, private companies and establishments of all types; enter into tenders and auctions; award contracts; receive and pay; receive rights from others; acknowledge, claim, defend, plead, litigate, discharge, reconcile, assign and reject; request the performance of oath and rejection thereof; accept judgments and object thereto; request arbitration; request the execution of judgments and appeal thereto; collect execution proceeds; obtain evidentiary deeds and request the amendment of title deeds and measurements provided therein. Moreover, the Board shall have the right to participate in the incorporation of companies in which the Company holds shares; sign all types of contracts, deeds and documents before the notary public, including, for example, the articles of association of the companies in which the Company holds shares and any amendments and appendices thereto as well as all shareholders' resolutions in such companies (including those relating to the increase of capital, purchase of shares and assignment of shares) and authenticate contracts and sign before the General Department of Companies at the MOCI and before the notary public.

The Board may amend, change, issue, renew, collect and cancel commercial registration certificates; change the names of affiliate companies; pledge the Company's movable and fixed assets to guarantee the Company's loans and those of its affiliates and sell and purchase real estate, lands, shares and movable and fixed assets in accordance with the following conditions:

- (a) the Board of Directors shall set out in its resolution the reasons for the sale;
- (b) the sale value shall be by an equivalent value;



- (c) the sale shall be immediate, except in cases of necessity and after obtaining sufficient guarantees; and
- (d) the sale shall have no negative effect on the Company's activities.

The Board of Directors shall also have the right to execute contracts and deeds before the notary public and governmental authorities; conclude loan agreements, guarantees and corporate guarantees; waive the priority of the debts due to the Company and discharge the Company's debtors from their obligations in a manner that serves the Company's interests and in accordance with the relevant accounting principal used to write-off debts, provided that the reasons of such decision is recorded in the minutes of meeting of the Board of Directors and that the Board's decision observes the following:

- (a) the discharge shall be after the lapse of at least one year from the establishment of the debt;
- (b) the discharge shall be for a specified maximum amount for each year for each debtor; and
- (c) the discharge shall be a right to be wielded only by the Board of Directors and shall not be delegated to any person.

The Board of Directors shall also have the right to issue official powers of attorney in the name of the Company; sell, purchase, evacuate and accept real estate and lands; purchase and sell shares, stocks and movable and fixed assets; receive payment in any manner it deems appropriate; receive and handover; lease; receive and pay; open accounts and credits and extend the same; withdraw from, and deposit with, banks; obtain loans from banks; issue any banking guarantee; invest the Company's funds in local and international markets within or outside the Kingdom; pay remunerations; appoint and dismiss attorneys, employees and workers; request visas; recruit employees from abroad, sign their employment contracts and determine their salaries; request the issuance of residency permits (Iqama); transfer and release employee sponsorships and submit its recommendations in respect of appointing the Company's auditors to the General Assembly.

The Board of Directors shall also have the right to conclude and obtain loans from Government funds and financial institutions, regardless of the tenor thereof; execute all banking facilities agreements; liaise and negotiate with treasury departments of banks in respect of gold prices, commission amounts and all works relevant to treasury departments; receive and handover documents and papers with banks and specify the currency exchange rates. In addition, the Board shall have the right to conclude and obtain commercial loans for a tenor not exceeding the term of the Company, provided that the following conditions shall apply in respect of any loan having a tenor exceeding three years:

- (a) the loan amounts executed in any given financial year shall not exceed 50% of the Company's capital;
- (b) the Board shall specify, in its resolution, the manner in which the loan will be used and how it will be repaid; and
- (c) the Board shall ensure that the terms of the loan and the guarantees provided in relation thereto do not prejudice the interests of the Company, its Shareholders or the securities offered to the Company's creditors.

The Board has the right to delegate to one or more of its members or to third parties, any specific work or works.

#### **12.13.20 Remuneration of the Board Members**

Remuneration of the members of the Board of Directors shall be determined on the basis of the percentage set forth under Article (42) of the By-Laws, within the limits of the provisions of the Companies' Regulations and the laws or regulations complementary thereto. The report of the Board to the Ordinary General Assembly shall include a comprehensive statement of the salaries, profit shares, attendance allowances, expenses and the other benefits received by the Board members, as well as a statement of all amounts received by the members of the Board in their capacity as employees or administrators, or for doing any technical, administrative or consultative works previously approved by the General Assembly.

#### **12.13.21 Chairman and Managing Director**

The Board shall appoint one of its members as Chairman. The Board shall determine, at its discretion and in accordance with the Companies' Regulations, any additional remuneration to the Chairman in addition to his remuneration as a member of the Board pursuant to the By-Laws.

The Chairman shall have the following authorities:

- (a) to invite the Board and the General Assembly to meetings;
- (b) to preside and manage the meetings of the Board and the General Assembly;



- (c) to represent the Company in official and media forums;
- (d) to represent the Company in its relations with third parties, government authorities, private entities, Shariah courts, other judicial authorities, Board of Grievances and all other judicial committees inside or outside the Kingdom. In addition, the Chairman shall have the authority to sign before the notary public on articles of association of companies in which the Company participates and on amendments thereto; and shall have the authority to litigate and defend; and
- (e) such other authorities as granted to him by the Board of Directors.

The Chairman may delegate some of his powers or duties to any of the Board members, Company staff or any third party.

The Board may appoint a managing director and/or a Chief Executive Officer from amongst its members or otherwise. The Board shall determine by virtue of a Board resolution the powers and remuneration of the Chief Executive Officer and the managing director. It shall not be permissible to conjoin the office of the Chairman and the office of the managing director or the Chief Executive Officer. The Board of Directors shall appoint a Secretary, whether from amongst its members or otherwise, and shall determine his powers and remuneration by virtue of a resolution of the Board. The term of the office of the Chairman, the managing director and the Secretary, if a member of the Board, shall not exceed their respective terms of service as members of the Board and may always be reappointed.

### **12.13.22 Board Meetings**

The Board of Directors shall be convened no less than four times per year upon a written invitation given by the Chairman. Such invitation together with a meeting agenda shall be delivered by mail, fax or email not less than seven (7) days prior to the date set for the meeting. The Chairman shall call a meeting of the Board if so requested by any two Directors.

### **12.13.23 Quorum and Representation**

A meeting of the Board shall be duly convened only if attended by at least two-thirds of the Directors, including the Chairman or his delegate. In the event that a Director appoints another Director to attend a Board meeting as his proxy, then such proxy shall be appointed in accordance with the following guidelines:

- (a) a Director may not act as proxy for more than one other Director in attending the same meeting;
- (b) a proxy shall be appointed in writing; and
- (c) a Director acting by proxy may not vote on resolutions on which his principal is prohibited from voting.

Board resolutions shall be adopted with the approval of the majority vote of the Directors present in person or represented by proxy. The Board may adopt resolutions by circulating resolutions in writing to be signed by all the Directors (whether in a single counterpart or in multiple equivalent counterparts), and resolutions adopted through this method shall be deemed equivalent to Board resolutions issued at a Board meeting. Board meetings may also be convened via telephone or visual teleconference provided that such method permits the Directors to hear and talk to one another.

### **12.13.24 Minutes of Meetings**

Board deliberations and resolutions shall be recorded in minutes to be signed by the Chairman and the Secretary. Such minutes shall be recorded in a special register to be signed by the Chairman and the Secretary.

### **12.13.25 Shareholders Assemblies**

#### **A) General Assembly**

A General Assembly duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located. Any Shareholder, regardless of the Shares he holds, has the right to addend the constituent General Assembly, whether in person or by proxy. Any Shareholder holding 20 Shares has the right to attend the General Assembly, and may authorise in writing another Shareholder, other than the Directors, to attend the General Assembly on his behalf.

#### **B) Constituent General Assembly**

The constituent General Assembly shall be competent to do the following:

- (a) ascertain that the capital of the Company has been subscribed for in full, and that the minimum

capital has been paid in full, as required under the Companies' Regulations, and in the amount due for the value of each Share;

- (b) approve the final text of the By-Laws. However, no material change may be made to the By-Laws unless agreed by all Shareholders represented therein;
- (c) appoint the first members of the Board and the first auditors of the Company;
- (d) deliberate the founders' report regarding the work and expenses needed for the incorporation;
- (e) consider the approval of the values of in kind contributions.

To be validly constituted, the constituent General Assembly must be attended by Shareholders representing at least half of the Company's capital. Each Shareholder shall have a vote for every Share subscribed for or represented by him at such meeting.

### **C) Ordinary General Assembly**

Except for matters falling within the jurisdiction of the Extraordinary General Assembly, the Ordinary General Assembly shall be competent to deal with all other matters related to the Company and shall be convened at least once a year during the first six months following the end of the Company's financial year. Other Ordinary General Assembly meetings may be called upon when necessary.

### **D) Extraordinary General Assembly**

The Extraordinary General Assembly shall be competent to amend the provisions of the By-Laws, to the extent permitted under the law. Furthermore, the Extraordinary General Assembly shall be empowered to adopt resolutions in matters within the jurisdiction of the Ordinary General Assembly under the same conditions and manners as prescribed for the latter.

### **E) Manner of Convening General Assemblies**

The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the Company's auditors or by a number of Shareholders representing at least 5% of the Company's capital. A notice shall be published in the Official Gazette and in a daily newspaper circulated in the city where the Company's head office is located at least 25 days prior to the time set for such meeting. The notice shall include the agenda of the meeting and a copy of the notice and the agenda shall be sent, within the period set for publication, to the General Department of Companies at the MOCI.

### **F) Record of Attendance**

When a General Assembly convenes, a list shall be prepared of the names and residence addresses of the Shareholders present or represented therein, showing the number of Shares held by each Shareholder, whether personally or by proxy and the number of votes allotted thereto. Any interested party shall be entitled to examine such list.

### **G) Quorum of the Ordinary General Assembly**

A meeting of the Ordinary General Assembly shall not be valid unless attended by Shareholders representing at least half of the Company's share capital. If such quorum cannot be attained at the first meeting, a notice shall be published in the manner prescribed in Article (30) of the By-Laws, and the second meeting shall be deemed valid irrespective of the number of Shares represented therein.

### **H) Quorum of the Extraordinary General Assembly**

A meeting of the Extraordinary General Assembly shall not be valid unless attended by Shareholders representing at least half of the Company's share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened in the same manner provided for in the previous article. The second meeting shall be valid only if attended by a number of Shareholders representing at least a quarter of the Company's share capital.

### **I) Voting Rights**

Each Shareholder shall have a vote for every Share represented by him in the constituent General Assembly meeting. Votes at the meetings of the Ordinary General Assembly and the Extraordinary General Assembly shall be computed based on the number of Shares represented at the meeting. The General Assembly shall elect the Directors through the accumulative voting method pursuant to the Corporate Governance Regulations issued by the CMA, as amended from time to time.

### **J) Resolutions**

Resolutions of the constituent General Assembly shall be adopted by an absolute majority of the Shares represented at the meeting. If the resolution to be adopted relates to the evaluation of in-kind contributions or special privileges, such resolution shall be adopted by a majority vote of two-thirds of the

subscribers to cash Shares, after excluding the Shares subscribed to by the in-kind shares contributors and the beneficiaries of the special privileges, who shall not be permitted to vote on such resolutions even if they hold cash Shares. Resolutions of the Ordinary General Assembly shall be adopted by an absolute majority of the Shares represented at the meeting.

Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two-thirds of the Shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's term, dissolving the Company prior to the expiry of the term specified under the By-Laws or merging the Company with another company or establishment, then such resolution shall be valid only if adopted by a majority vote of three-quarters of the Shares represented at the meeting.

#### **K) Discussion of Agenda**

Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the Directors and the auditors. The Directors or the auditors shall answer the Shareholders' questions in a manner that does not prejudice the Company's interest. If a Shareholder deems the answer to the question unsatisfactory, then such Shareholder may refer the issue to the General Assembly and its decision in this regard shall be conclusive.

#### **L) Proceedings of the General Assembly**

The General Assembly shall be presided over by the Chairman, or in his absence, his delegate. The Chairman shall appoint a secretary for the meeting and a canvasser. Minutes shall be written for the meeting which shall include the names of the Shareholders present, in person or represented by proxy, the number of Shares held by each Shareholder, the number of votes attached to such Shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place during the meeting. Such minutes shall be regularly recorded after each meeting in a special register that shall be signed by the Chairman, the secretary and the canvasser.

### **12.13.26 Appointment of Auditors**

The Company shall have one or more auditors to be selected from amongst the auditors licenced to work in the Kingdom. The auditor(s) shall be appointed, and its compensation shall be determined, annually by the General Assembly. The General Assembly may reappoint the same auditor(s).

### **12.13.27 Auditors' Duties**

The auditors shall have access at all times to the Company's books, records and any other documents, and may request information and clarifications as it deems necessary. It may further verify the Company's assets and liabilities.

The auditors shall submit a report annually to the Ordinary General Assembly setting out the extent to which the Company has provided the auditors with the information and clarifications it has requested, any violations of the Companies' Regulations and the By-Laws which it has discovered and its opinion as to whether the Company's accounts are a true and fair reflection of the Company's position.

### **12.13.28 Financial Year**

The Company's financial year shall commence on 1 January and expire on 31 December each year, provided that the first financial year shall commence on the date of the ministerial resolution announcing the incorporation of the Company and expire on 31 December of the following year.

### **12.13.29 Company Financial Statements**

The Board of Directors shall prepare at the end of each financial year an inventory of the Company's assets and liabilities on such date, the Company's balance sheet and profit and loss account, a report on the Company's activities and its financial position for the preceding year and its proposals as to the distribution of the net profits. The Board of Directors shall prepare such documents at least 60 days prior to convening the Ordinary General Assembly. The Board of Directors shall place such documents at the auditors' disposal at least 55 days prior to the date set for convening the General Assembly. Such documents shall be signed by the Chairman and copies thereof shall be available at the Company's head office for the Shareholders' review at least 25 days prior to the date set for convening the General Assembly. The Chairman shall publish copies of the Company's balance sheet, profit and loss account, a comprehensive summary of the Board of Directors' report and the full text of the auditors' report in a

newspaper circulated in the city where the Company's head office is located, and shall send such copies of such documents to the General Department of Companies at the MOCI at least 25 days prior to the date set for convening the General Assembly.

### **12.13.30 Distribution of Dividends**

After deducting all general expenses and other costs, the Company's annual net profits (after the General Assembly's approval) shall be allocated as follows:

- (a) 10% of the net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when such statutory reserve totals onehalf of the Company's capital;
- (b) the Ordinary General Assembly may, upon request of the Board of Directors, set aside 10% of the net profits to form an additional reserve to be allocated towards one or more specific purposes;
- (c) out of the balance of the net profits, Shareholders shall be paid an initial payment amounting to 5% of the Company's paid-up capital;
- (d) out of the balance of the net profits, a maximum amount equal to 5% of the distributable profits shall be paid to the Board of Directors as remuneration; and
- (e) the remainder of the net profits shall be distributed to the Shareholders as an additional share of the dividends or deposited in the Company's retained earnings account.

The Company may distribute dividends on a quarterly or semi-annual basis in accordance with the rules approved by the General Assembly in relation to the distribution of interim dividends and after obtaining the required regulatory approvals.

### **12.13.31 Manner of Distributing Dividends**

The profits to be distributed to the Shareholders shall be paid at such place and time as determined by the Board of Directors, in accordance with the instructions issued by the MOCI.

### **12.13.32 Company's Losses**

If the Company's losses total three-quarters of its capital, then the Directors shall call a meeting of the Extraordinary General Assembly to consider whether the Company shall continue to exist or be dissolved prior to the expiry of its term specified under Article 6 of the By-Laws. In all cases, the General Assembly's resolution shall be published in the Official Gazette.

### **12.13.33 Disputes**

Where the Directors have committed an act that has caused a particular damage to a Shareholder, such Shareholder shall have the right to sue the Directors for liability, provided that the Company still has the right to bring such action. The Shareholder shall notify the Company of his intention to file such action.

### **12.13.34 Dissolution and Winding-up of the Company**

Upon the expiry of the Company's term, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on the proposal of the Board of Directors, decide the method of liquidation, appoint one or more liquidators and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's dissolution. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are appointed. The Company's departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators.

## **12.14 Description of Shares**

### **12.14.1 Share Capital**

The Company's nominal issued and paid up capital is SAR 430,000,000 divided into 43,000,000 Shares, with an equal nominal value of SAR 10 each, all of which are ordinary shares.

### **12.14.2 Ordinary Shares**

The Shares shall be nominal shares, and may not be issued at less than their nominal value. However, the Shares may be issued at a value higher than their nominal value, in which case the difference in value

shall be added to the statutory reserve, even if such reserve has reached its maximum limit. A Share shall be indivisible vis-à-vis the Company. In the event that a Share is owned by several persons, they shall select one person from amongst themselves to exercise, on their behalf, the rights pertaining to such Share, and they shall be jointly responsible for the obligations arising from the ownership of such Share.

### **12.14.3 Transfer of Shares**

The transfer of Shares is governed by, and must comply with, the rules and regulations governing companies listed on Tadawul.

### **12.14.4 Re-purchase of Shares**

Pursuant to Article 105 of the Companies' Regulations, the Company shall not purchase its Shares, except in the following cases:

- (a) if the purpose of the purchase is to amortise the Shares in accordance with the conditions set forth in Article 104 of the Companies' Regulation;
- (b) if the purpose of the purchase is to decrease the capital; and
- (c) if the Shares are within a range of funds purchased by the Company with its assets and liabilities.

### **12.14.5 Rights of the Holders of Ordinary Shares**

Pursuant to Article 108 of the Companies Regulations, a Shareholder is vested with all the rights attached to the Shares, which include in particular the right to receive a share in the profits declared for distribution, the right to a share in the Company's assets upon liquidation, the right to attend General Assembly meetings and participate in the deliberations and vote on its resolutions, the right to dispose of the Shares, the right to access the Company's books and documents, the right to supervise the acts of the Board of Directors, the right to institute proceedings against the Directors and to contest the validity of the resolutions adopted at General Assembly meetings in accordance with the conditions and restrictions set forth in the Companies' Regulations and the By-Laws.

Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the Directors and the auditors. The Directors or the auditors shall answer the Shareholders' questions in a manner that does not prejudice the Company's interest. If a Shareholder deems the answer to the question unsatisfactory, then such Shareholder may refer the issue to the General Assembly and its decision in this regard shall be conclusive.

### **12.14.6 General Assembly**

A General Assembly duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located. Any Shareholder, regardless of the Shares he holds, has the right to attend the constituent General Assembly, whether in person or by proxy. Any Shareholder holding 20 Shares has the right to attend the General Assembly, and may authorise in writing another Shareholder, other than the Directors, to attend the General Assembly on his behalf.

With the exception of the constituent General Assembly, the general meetings of Shareholders are either Ordinary General Assembly or Extraordinary General Assembly meetings. Except for matters falling within the jurisdiction of the Extraordinary General Assembly, the Ordinary General Assembly shall be competent to deal with all other matters related to the Company and shall be convened at least once a year during the first six months following the end of the Company's financial year. Other Ordinary General Assembly meetings may be called upon when necessary.

The Extraordinary General Assembly shall be competent to amend the provisions of the By-Laws, to the extent permitted under the law. Furthermore, the Extraordinary General Assembly shall be empowered to adopt resolutions in matters within the jurisdiction of the Ordinary General Assembly under the same conditions and manners as prescribed for the latter.

### **12.14.7 Convening a General Assembly**

The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the Company's auditors or by a number of Shareholders representing at least 5% of the Company's capital. A notice shall be published in the Official Gazette and in a daily newspaper circulated in the city where the Company's head office is located at least 25 days prior to the time set for such meeting. The notice shall include the agenda of the meeting and a copy of the notice and the agenda shall be sent, within the period set for publication, to the General Department of Companies at the MOCI.

### **12.14.8 Quorum of an Ordinary General Assembly**

A meeting of the Ordinary General Assembly shall not be valid unless attended by Shareholders representing at least half of the Company's share capital. If such quorum cannot be attained at the first meeting, a notice shall be published in the manner prescribed in Article (30) of the By-Laws, and the second meeting shall be deemed valid irrespective of the number of Shares represented therein.

### **12.14.9 Quorum of an Extraordinary General Assembly**

A meeting of the Extraordinary General Assembly shall not be valid unless attended by Shareholders representing at least half of the Company's share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened in the same manner provided for in the previous article. The second meeting shall be valid only if attended by a number of Shareholders representing at least a quarter of the Company's share capital.

### **12.14.10 Voting Rights**

A General Assembly duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located. Any Shareholder, regardless of the Shares he holds, has the right to attend the constituent General Assembly, whether in person or by proxy. Any Shareholder holding 20 Shares has the right to attend the General Assembly, and may authorise in writing another Shareholder, other than the Directors, to attend the General Assembly on his behalf.

Each Shareholder shall have a vote for every Share represented by him in the constituent General Assembly meeting. Votes at the meetings of the Ordinary General Assembly and the Extraordinary General Assembly shall be computed based on the number of Shares represented at the meeting. The General Assembly shall elect the Directors through the accumulative voting method pursuant to the Corporate Governance Regulations issued by the CMA, as amended from time to time.

Resolutions of the constituent General Assembly shall be adopted by an absolute majority of the Shares represented at the meeting. If the resolution to be adopted relates to the evaluation of in-kind shares contributions or special privileges, such resolution shall be adopted by a majority vote of two-thirds of the subscribers to cash Shares, after excluding the Shares subscribed to by the in-kind contributors and the beneficiaries of the special privileges, who shall not be permitted to vote on such resolutions even if they hold cash Shares. Resolutions of the Ordinary General Assembly shall be adopted by an absolute majority of the Shares represented at the meeting.

Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two-thirds of the Shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's term, dissolving the Company prior to the expiry of the term specified under the By-Laws or merging the Company with another company or establishment, then such resolution shall be valid only if adopted by a majority vote of three-quarters of the Shares represented at the meeting.

Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the Directors and the auditors. The Directors or the auditors shall answer the Shareholders' questions in a manner that does not prejudice the Company's interest. If a Shareholder deems the answer to the question unsatisfactory, then such Shareholder may refer the issue to the General Assembly and its decision in this regard shall be conclusive.

### **12.14.11 Term of the Company**

The term of the Company shall be 99 years commencing from the date of issue of the resolution of the Minister of Commerce and Industry announcing the Company's incorporation. The term of the Company may always be extended by a resolution issued by the Extraordinary General Assembly at least one year prior to the expiration of its term.

### **12.14.12 Dissolution and Liquidation of the Company**

Upon the expiry of the Company's term, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on the proposal of the Board of Directors, decide the method of liquidation, appoint one or more liquidators and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's dissolution. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are appointed. The Company's departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators.

### **12.14.13 Change of Shareholders' Rights**


The rights of the Shareholders to receive a share in the Company's profits declared for distribution, receive a share in the Company's assets surplus upon liquidation, attend General Assembly meetings and participate in the deliberations and vote on its resolutions, dispose of the Shares, access the Company's books and documents, supervise the acts of the Board of Directors, institute proceedings against the Directors and contest the validity of the resolutions adopted at General Assembly meetings (in accordance with the conditions and restrictions set forth in the Companies' Regulations and the By-Laws) are granted pursuant to the Companies' Regulations and, therefore, may not be changed.



## 13. Underwriting

The Company, the Selling Shareholders and the Underwriter (being Saudi Fransi Capital) have entered into an underwriting agreement (the "Underwriting Agreement") pursuant to which the Underwriter has agreed, subject to certain conditions, to fully underwrite the Offering of 12,900,000 Offer Shares. The name and address of the Underwriter are set out below:

### Underwriter

|   |   |
|---|---|
| <b>Saudi Fransi Capital</b><br>King Fahad Road<br>P.O. Box 23454<br>Riyadh 11426<br>Kingdom of Saudi Arabia<br>Tel: + 966 (11) 282 6666<br>Fax: + 966 (11) 282 6823<br>Website: <a href="http://www.sfc.sa">www.sfc.sa</a><br>Email: <a href="mailto:info@fransicapital.com.sa">info@fransicapital.com.sa</a> | <br>السعودي الفرنسي كابيتال<br>Saudi Fransi Capital |
|---|---|

The agreed principal terms of the Underwriting Agreement are set out below:

### 13.1 Summary of Underwriting Arrangements

Under the terms and subject to the conditions contained in the Underwriting Agreement:

- (a) the Selling Shareholders undertake to the Underwriter that, on the first business day after the CMA approves the allocation of the Offer Shares following the end of the Offering Period, they shall:
  - 1. Sell and allocate the Offer Shares to any Individual Investor or Institutional Investor whose application for Offer Shares has been accepted by a Selling Agent; and
  - 2. sell and allocate to the Underwriter the Offer Shares that are not purchased by Individual Investor or Institutional Investors pursuant to the Offering; and
- (b) the Underwriter undertakes to the Selling Shareholders that it will purchase any Offer Shares that are not subscribed for by Individual Investor or Institutional Investors, as stated below:

**Table 13.1: Underwritten Shares**

| Underwriter          | No. of Offer Shares Underwritten | Percentage of Offer Shares Underwritten |
|----------------------|----------------------------------|---|
| Saudi Fransi Capital | 12,900,000                       | 100%                                    |

Source: The Company

The Company and Selling Shareholders have committed to satisfy all the provisions of the Underwriting Agreement.

### 13.2 Underwriting Costs

The Selling Shareholders will pay to the Underwriter an underwriting fee based on the total value of the Offering. Moreover, the Selling Shareholders agreed on behalf of the Company to pay the Underwriter's costs and expenses in connection with the Offering.

## 14. Expenses

The Selling Shareholders will be responsible for all costs associated with the Offer, which are estimated at approximately SAR 26,000,000. This figure includes the fees of each of the Financial Advisor, Underwriter, Lead Manager, Bookrunner, legal advisors to the Company and the Underwriter, reporting accountants, Selling Agents, Market Consultant, in addition to marketing expenses, printing and distribution expenses and other related expenses. The Offering expenses will be deducted from the proceeds of the Offering. The Company will not be responsible for payment of the Offering expenses.

## 15. Company's Undertakings following Listing

Following Admission, the Company undertakes to:

- (a) complete Form 8 (relating to compliance with the Corporate Governance Regulations) and, in the event that the Company does not comply with any of the requirements of the Corporate Governance Regulations, to explain the reasons for such non-compliance;
- (b) provide the CMA with the date on which the first General Assembly will be held following Admission so that a representative may attend;
- (c) submit Related Party transactions and contracts for the General Assembly's approval (in accordance with the Companies' Regulations and Corporate Governance Regulations) on an annual basis, provided that any Related Party shall be prohibited from voting on such resolution (for further details regarding Related Party transactions, please see Section 12.9 ("Related Party Contracts and Transactions"));
- (d) appoint an independent Director at the latest, at the first Ordinary General Assembly meeting following the Offering in accordance with the Corporate Governance Regulations.
- (e) quarterly disclosure of developments related to projects set out in section 4.9 ("Future Plans and Initiatives").
- (f) compliance with all binding articles of corporate governance regulations directly post listing.

Similarly, following Admission, the Board of Directors undertakes to:

- (a) record all of its resolutions and deliberations in the form of written and signed minutes of the meeting which shall be executed by the Chairman and the Secretary; and
- (b) include brief details of any transactions with a Related Party in the agenda of General Assemblies so that the Shareholders are given the opportunity to approve such transactions at such meetings in accordance with Article 69 of the Companies' Regulations and Article 18 of the Corporate Governance Regulations.

## 16. Waivers from the Listing Rules

The Company has not applied to the CMA for any exemption from any requirements specified in the Listing Rules.

## 17. Subscription Terms and Conditions

The Company has made an application to the CMA for the registration and admission to listing of the Shares on the Exchange in accordance with the Listing Rules.

All Subscribers must carefully read the subscription terms and conditions before completing the Subscription Application Form. Signing the Subscription Application Form and delivering it to a Selling Agent is deemed as acceptance and approval of the subscription terms and conditions.

### 17.1 Subscription to Offer Shares

The Offering will consist of 12,900,000 Offer Shares with a nominal value of SAR 10 per Offer SAR at an Offer Price of SAR 37 per Offer Share. This includes a fully paid nominal value of SAR 10 per share. Offer Shares represent 30% of the Company's issued capital with a Offering's total value of SAR 477,300,000 Offering of the Offer Shares to the Individual Investors and the listing of the Offer Shares is contingent on the successful subscription by the Institutional Investors of 100% of the Offer Shares. The Offering will be cancelled if it is not fully subscribed for at this stage. The CMA has also the right to suspend the Offering if, at any time after its approval of this Prospectus and before registration and admission to listing of the Shares on the Exchange, a material adverse change has occurred in respect of the Company's operations.

The Offering is restricted to the following groups of investors:

#### 17.1.1 Tranche (A): Institutional Investors

Consisting of a number of institutions, including investment funds (for further details, please see Section 1 ("Definitions and Abbreviations")). Institutional Investors will initially be allocated 12,900,000 Offer Shares, representing 100% of the Offer Shares. In the event that there is sufficient demand by Individual Investors, the Bookrunner has the right to reduce the number of Offer Shares provisionally allocated to Institutional Investors to 9,030,000 Offer Shares, representing up to 70% of the Offer Shares, subject to the approval of the CMA. Subject to the level of demand received from investment funds for the Offer Shares, 90% of the Offer Shares in Tranche (A) will be allocated to investment funds. Such percentage is subject to change if: (i) the other Institutional Investors (excluding investment funds) do not fully subscribe to their allocated 10%; or (ii) the demand for the Offer Shares from the investment funds is less than 90%.

#### 17.1.2 Tranche (B): Individual Investors

Saudi Arabian natural persons, including Saudi women who are divorced or widowed and who have children by a non-Saudi husband who may subscribe for Offer Shares in the name(s) of any of those children who are minors for her own benefit. The subscription by a person in the name of his divorced wife shall be deemed invalid and those who perform such transactions will be subject to penalty under the laws of the Kingdom. If two subscriptions are submitted, the second shall be deemed void and only the first one shall be taken into consideration. A maximum of 3,870,000 Offer Shares representing 30% of the Offer Shares shall be allocated to Individual Investors. In the event of insufficient take up by Individual Investors, the Bookrunner may reduce the maximum number of Offer Shares to be allocated to Individual Investors in proportion to the number of Offer Shares subscribed by them, subject to the approval of the CMA.

#### 17.1.3 Book-building and Subscription by Institutional Investors

Each of the Institutional Investors must submit an irrevocable offer to purchase such number of Offer Shares (or such lower number of Offer Shares or, with its subsequent agreement in writing, such higher number of Offer Shares as, in each case, the Bookrunner and the Selling Shareholders may decide to allocate in accordance with the requirements of the CMA as part of the Offering) at such prices as set out in its institutional bid form submitted to the Bookrunner. The number of Offer Shares to be subscribed by each Institutional Investor shall not be less than 100,000. The Bookrunner will notify the Institutional Investors regarding the Offer Price and the number of Offer Shares provisionally allocated to them. Subscriptions by the Institutional Investors shall commence during the Offering Period, which also includes the Individual Investors, according to the terms and conditions detailed in the Subscription Application Forms.

#### 17.1.4 Subscription by Individual Investors

Each Individual Investor shall subscribe for a minimum of ten Offer Shares and a maximum of 250,000 Offer Shares. Changes to or withdrawal of the subscription application shall not be permitted once the Subscription Application Form has been submitted.

### 17.1.5 Subscription Application Forms

Subscription Application Forms will be available during the Offering Period at all Selling Agents' branches. Subscription Application Forms shall be completed in accordance with the instructions mentioned below. Individual Investors who have recently participated in recent initial public offerings can also subscribe through the Internet, banking telephone or ATMs of any of the Selling Agents' branches that offer any or all such services to its customers, provided that the following requirements are satisfied:

- (a) the Individual Investor shall have a bank account at a Selling Agent which offers such services; and
- (b) there should have been no changes to the personal information or data of the Individual Investor since his subscription in the last Offering.

A signed Subscription Application Form must be submitted to any branches of the Selling Agents representing a legally binding agreement between the Selling Shareholders and the relevant Subscriber submitting it.

Subscribers may obtain a copy of this Prospectus and the Subscription Application Form from the branches of the following Selling Agents (or their websites for the Selling Agents providing such service):

|  |  |
|--|--|
| <b>The National Commercial Bank</b><br>King Abdulaziz Road<br>P.O. Box 3555, Jeddah 21481<br>Kingdom of Saudi Arabia<br>Tel: +966 (12) 649 3333<br>Fax: +966 (12) 643 7426<br>Website: <a href="http://www.Alahli.com.Sa">www.Alahli.com.Sa</a><br>Email: <a href="mailto:contactus@alahli.com">contactus@alahli.com</a>                       |    |
| <b>Saudi Hollandi Bank</b><br>Prince Abdulaziz Bin Musa'ed Bin Jlawy Street<br>P.O. Box 1467, Riyadh 11431<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 401 0288<br>Fax: +966 (11) 403 1104<br>Website: <a href="http://www.Shb.com.Sa">www.Shb.com.Sa</a><br>E mail: <a href="mailto:csc@saudihollandibank.com">csc@saudihollandibank.com</a> |   |
| <b>Banque Saudi Fransi</b><br>Ma'ather Street<br>P.O. Box 56006, Riyadh 11554<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 404 2222<br>Fax: +966 (11) 404 2311<br>Website: <a href="http://www.alfransi.com.sa">www.alfransi.com.sa</a><br>Email: <a href="mailto:communications@alfransi.com.sa">communications@alfransi.com.sa</a>           |  |
| <b>Samba Financial Group</b><br>King Abdulaziz Road<br>P.O. Box 833, Riyadh 11421<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 477 4770<br>Fax: +966 (11) 479 9402<br>Website: <a href="http://www.samba.com.sa">www.samba.com.sa</a><br>E mail: <a href="mailto:customercare@samba.com">customercare@samba.com</a>                            |  |
| <b>Riyad Bank</b><br>King Abdulaziz Road<br>P.O. Box 22622, Riyadh 11614<br>Kingdom of Saudi Arabia<br>Tel: +966 (11) 401 3030<br>Fax: +966 (11) 404 2618<br>Website: <a href="http://www.riyadbank.com">www.riyadbank.com</a><br>Email: <a href="mailto:customercare@riyadbank.com">customercare@riyadbank.com</a>                            |  |

The Selling Agents will commence receiving Subscription Application Forms at their branches throughout the Kingdom beginning on 29/08/1437H (corresponding to 05/06/2016G) until 08/09/1437H (corresponding to 13/06/2016G). Once the Subscription Application Form is signed and submitted, the relevant Selling

Agent receiving it will stamp it and provide the Subscriber with a copy of the completed Subscription Application Form. In the event that the information provided in the Subscription Application Form is incomplete or inaccurate, or not stamped by the Selling Agent, the Subscription Application Form will be considered void. The Subscribers do not have the right to claim any compensation for the damages incurred due to such cancellation.

Each Subscriber is required to specify the number of Offer Shares applied for in the Subscription Application Form, and the total subscription amount will be equal to the number of Offer Shares applied for multiplied by the Offer Price of SAR 37 per Offer Share.

Subscriptions for less than ten Offer Shares or fractional numbers will not be accepted. Increments are to be made in multiples of such minimum number, while the maximum number of Offer Shares to be applied for is 250,000 Offer Shares.

Subscription Application Forms should be submitted during the Offering Period and accompanied (where applicable) with the following documents (the Selling Agents will verify all copies against the originals and will return the originals to the relevant Subscriber):

- (a) the original and copy of the Subscriber's national civil identification card (in case of individuals);
- (b) the original and copy of the family civil identification card (when subscribing on behalf of family members);
- (c) the original and copy of a power of attorney (when subscribing on behalf of others);
- (d) the original and copy of certificate of guardianship (when subscribing on behalf of orphans);
- (e) the original and copy of the divorce certificate (when subscribing on behalf of the children of a divorced Saudi woman);
- (f) the original and copy of the death certificate (when subscribing on behalf of the children of a widowed Saudi woman);
- (g) the original and copy of the birth certificate (when subscribing on behalf of the children of a divorced or widowed Saudi woman).

In the event an application is made on behalf of an Individual Investor (parents and children only), the name of the person signing on behalf of the Individual Investor should be stated in the Subscription Application Form. The power of attorney must be notarised by a notary public for the Individual Investors residing in the Kingdom and must be legalised through a Saudi embassy or consulate in the relevant country for the Individual Investors residing outside the Kingdom. The concerned official of the Selling Agent shall match the copy with the original and return the original to the Investor.

One Subscription Application Form should be completed for each prime Individual Investor applying for himself and members appearing on his family identification card if the family members apply for the same number of Offer Shares as the prime Individual Investor. In this case:

- (a) all Offer Shares allocated to the prime Individual Investor and dependent Individual Investors will be registered in the prime Individual Investor's name;
- (b) the prime Individual Investor will receive any refund in respect of amounts not allocated and paid for by himself or dependent Individual Investors; and
- (c) the prime Individual Investor will receive all dividends distributed in respect of the Offer Shares allocated to himself and dependent Individual Investors (in the event the Shares are not sold or transferred).

Separate Subscription Application Forms must be used if:

- (a) the Offer Shares that will be allocated are to be registered in a name other than the name of the prime Individual Investor;
- (b) dependent Individual Investors intend to apply for a different number of Offer Shares than the prime Individual Investor; and
- (c) the wife subscribes in her name adding allocated Offer Shares to her account (she must complete a separate Subscription Application Form from the Subscription Application Form completed by the relevant prime Individual Investor). In the latter case, applications made by the husbands on behalf of their spouses will be cancelled and the independent application of the wives will be processed by the Selling Agent.

A Saudi female divorcee or widow who has minor children from a marriage to a non-Saudi husband can subscribe on behalf of those children provided she submits proof of motherhood. A subscription for Offer Shares made by a person in the name of his divorced wife shall be deemed invalid and the applicant shall be subject to the sanctions prescribed by law.



During the Offering Period, only a valid Iqama will be an acceptable form of identification for non-Saudi dependents. Passports or birth certificates will not be accepted. Non-Saudi dependents can only be included as dependents with their mother and cannot subscribe as prime Individual Investors. The maximum age for non-Saudi dependents to be included with their mother is 18. Any documents issued by a foreign government must be legalised through a Saudi embassy or consulate in the relevant country.

Each Subscriber agrees to subscribe for and purchase the number of Offer Shares specified in his/her Subscription Application Form for an amount equal to the number of Offer Shares applied for multiplied by the Offer Price of SAR 37 per Offer Share. Each Subscriber shall acquire the number of Offer Shares allocated to him/her upon:

- (a) delivery by the Subscriber of the Subscription Application Form to any of the Selling Agents;
- (b) payment in full by the Subscriber to the Selling Agent of the total value of the Offer Shares subscribed for; and
- (c) delivery to the Subscriber by the Selling Agent of the allotment letter specifying the number of Offer Shares allotted to him/her.

The total value of the Offer Shares subscribed for must be paid in full at a branch of the Selling Agents by authorising a debit of the Subscriber's account held with the Selling Agent to whom the Subscription Application Form is being submitted.

If a submitted Subscription Application Form is not in compliance with the terms and conditions of the Offer, the Company shall have the right to reject, in full or in part, such an application. The Individual Investor shall accept any number of Offer Shares allocated to him/her unless the allocated shares exceed the number of Offer Shares he has applied for.

## **17.2 Allocation and Refunds**

The Selling Agents shall open and operate escrow accounts named ("L'azurde Company for Jewelry IPO"). Each of the Selling Agents shall deposit all amounts received from the Subscribers into the escrow accounts mentioned above.

The Selling Agents will send notification letters to the Subscribers informing them of the final number of Offer Shares allocated together with the amounts to be refunded. Excess subscription monies, if any, will be refunded to the Subscribers in whole without any deductions or fees and will be deposited in the Subscribers' accounts with the Selling Agents. The announcement of the final allocation and refunds process shall be made no later than 15/09/1437H (corresponding to 20/06/2016G) (for further details, please see "Key Dates and Subscription Procedures", page (xv), and Section 17 ("Subscription Terms and Conditions")). Subscribers should communicate with the branch of the Selling Agents where they submitted their Subscription Application Form for any further information.

### **17.2.1 Allocation of Offer Shares to Institutional Investors**

The allocation of Offer Shares to the Institutional Investors shall be determined by the Bookrunner (as it deems appropriate) after the allocation of Offer Shares to the Individual Investors is completed, provided that the number of Offer Shares allocated to the Institutional Investors shall not be less than 9,030,000 Offer Shares representing 70% of the Offer Shares. Subject to the level of demand received from investment funds for the Offer Shares, 90% of the Offer Shares allocated to Institutional Investors will be allocated to investment funds. Such percentage is subject to change if: (i) the other Institutional Investors (excluding investment funds) do not fully subscribe to their allocated 10%; or (ii) the demand for the Offer Shares from the investment funds is less than 90%.

### **17.2.2 Allocation of Offer Shares to Individual Investors**

The minimum allocation per Individual Investor is ten Offer Shares, and the balance of the Offer Shares (if available) will be allocated on a pro-rata basis. In the event that the number of Individual Investors exceeds 387,000 Individual Investors, a minimum allocation of ten Offer Shares per Subscriber cannot be guaranteed, and the Offer Shares will be allocated equally between all Subscribers. If the number of Individual Investors exceeds 3,870,000 Individual Investors, the allocation will be determined in accordance with the recommendation made by the company and the Lead Manager. The surplus, if any, would be refunded without any commissions or deductions by the Selling Agents.

## 17.3 Circumstances where Listing may be Suspended or Cancelled

### 17.3.1 Power to Suspend or Cancel Listing

The CMA may suspend or cancel the listing at any time as it deems fit, in any of the following circumstances:

- (a) the CMA considers it necessary for the protection of investors or the maintenance of an orderly market;
- (b) the issuer fails, in a manner which the CMA considers material, to comply with the CML and its implementing regulations, including a failure to pay any fees or penalties due to the CMA on time;
- (c) the market liquidity requirements set out in Article 13(a) of the Listing Rules are no longer met;
- (d) the CMA considers that the issuer does not have a sufficient level of operations or sufficient assets to warrant the continued trading of its securities on the Exchange;
- (e) the CMA considers that the issuer or its business is no longer suitable to warrant the continued listing of its securities on the Exchange; or
- (f) in the case of cross-listed securities, the listing of the foreign issuer's securities has been suspended or cancelled elsewhere.

Where a suspension of listing for an issuer continues for six months, without the issuer taking appropriate action to resume the trading of its shares, the CMA may cancel the listing.

Upon an announcement of an Extraordinary General Assembly's approval on a capital increase resulting in a reverse takeover, the Company's listing shall be cancelled. The Company must submit a new application for registration and admission to listing in accordance with the Listing Rules.

### 17.3.2 Voluntary Cancellation or Suspension of Listing

An issuer whose securities have been admitted to listing may not suspend or cancel the listing of its securities on the Exchange without the prior approval of the CMA. The issuer must provide the CMA with the following:

- (a) specific reasons for the request for the suspension or cancellation;
- (b) a copy of the announcement described in the third full paragraph in this Section 17.3.2 ("Voluntary Cancellation or Suspension of Listing"); and
- (c) a copy of the relevant documentation and a copy of each related communication to shareholders if the cancellation is to take place as a result of a takeover or other corporate action by the issuer.

Once approval from the CMA has been obtained for the cancellation of listing, an issuer must obtain the consent of its Extraordinary General Assembly.

Where a suspension or cancellation is made at the issuer's request, the issuer must announce as soon as possible the reason for the suspension or cancellation, the anticipated period of the suspension, the nature of the event resulting in the suspension or the cancellation which affects the issuer's activities.

The CMA may accept or reject the request for suspension or cancellation in its discretion.

### 17.3.3 Temporary Trading Suspension

An issuer may request a temporary trading suspension upon the occurrence of an event that occurs during trading hours which requires immediate disclosure under the Listing Rules, where the issuer cannot maintain the confidentiality of this information until the end of the trading period.

To enable the CMA to assess the need for the temporary trading suspension and the appropriate duration of the trading suspension, the request must be supported by:

- (a) specific reasons for the request for the temporary trading suspension and the duration of the requested suspension; and
- (b) a copy of the announcement described in the following paragraph.

Where a temporary trading suspension is made at the issuer's request, the issuer must announce as soon as possible the reason for the trading suspension, the anticipated period of the trading suspension and the event affecting the issuer's activities.

The CMA may accept or reject the request for temporary trading suspension in its discretion.

The CMA may impose a temporary trading suspension without a request from the issuer where the CMA becomes aware of information or circumstances affecting the issuer's activities which the CMA considers would be likely to interrupt the operation of the Exchange or the protection of investors. An issuer whose securities are subject to temporary trading suspension must continue to comply with the CML and its implementing regulations.

A temporary trading suspension will be lifted following the elapse of the period referred to in the announcement specified in the third paragraph above, unless the CMA decides otherwise.

#### **17.3.4 Lifting of Suspension**

Where a listing has been suspended, the lifting of such suspension will depend on:

- (a) the events which led to the suspension being sufficiently remedied, and the suspension being no longer necessary for the protection of investors; and
- (b) the issuer complying with any other conditions that the CMA may require.

The CMA may lift a suspension even where the issuer has not requested it.

#### **17.3.5 Re-registering and Admission to Listing of Cancelled Securities**

An issuer is required to submit a new application for registration and admission to listing in order to re-register and admit to listing securities which have been cancelled.

### **17.4 Approvals and Decisions under which the Offer Shares are Offered**

Following are the decisions and approvals under which the Offer Shares are publicly offered:

- (a) the Company's Board of Directors decision recommending the Offering;
- (b) the Company's Extraordinary General Assembly resolution approving the Offering;
- (c) a copy of the CMA approval of the Offering.

### **17.5 Lock-up Period**

L'azurde Holding may not dispose of any Shares for a period of nine (9) months from the date on which trading of the Company's Shares commences on the Exchange. At the end of this Lock-up Period, L'azurde Holding may dispose of its Shares only after obtaining prior CMA approval.

### **17.6 Acknowledgments by Subscribers**

By completing and delivering the Subscription Application Form, each Subscriber:

- (a) agrees to subscribe to the number of Offer Shares specified in the Subscription Application Form;
- (b) warrants that he/she has read this Prospectus and understood all its content;
- (c) accepts the By-Laws of the Company and all Offering instructions and terms mentioned in this Prospectus and the Subscription Application Form, and subscribes in the Offer Shares accordingly;
- (d) declares that neither himself nor any of his family members included in the Subscription Application Form have previously subscribed for any Shares and that the Company has the right to reject any or all duplicate applications;
- (e) accepts the number of Offer Shares allocated to him/her (to the maximum of the amount subscribed for) as per the Subscription Application Form; and
- (f) warrants not to cancel or amend the Subscription Application Form after submitting it to the Selling Agent.

### **17.7 Shares' Record and Trading Arrangements**

Tadawul shall keep a shareholders' record containing their names, nationalities, addresses, professions, the shares held by them and the amounts paid for these shares.

### **17.8 Saudi Stock Exchange**

In 1990G, full electronic trading in the Kingdom equities was introduced. Tadawul was founded in 2001G as the successor to the Electronic Securities Information System. Trading in shares occurs on "Tadawul" system through a fully integrated trading system covering the entire trading process from execution of the

trade transaction through settlement thereof. Trading occurs on each business day of the week between 10:00 A.M and 3:00 P.M from Sunday to Thursday, during which orders are executed. However, during other than those times, orders can be entered, amended or cancelled from 9:30 A.M to 10:00 A.M.. The said times change during the month of Ramadan and they are announced by the Tadawul Management. Transactions take place through the automatic matching of orders. Each valid order is accepted and generated according to the price level. In general, market orders (orders placed at best price) are executed first, followed by limit orders (orders place at a price limit), provided that if several orders are generated at the same price, they are executed according to the time of entry. Tadawul distributes a comprehensive range of information through various channels, including in particular the Tadawul website and Tadawul Information Link, which supplies trading data in real time to the information providers such as Reuters. Exchange transactions are automatically settled during the day, meaning that shares ownership transfer takes place immediately after the trade transaction is executed.

Issuers are required to disclose all material decisions and information that are important for the investors via Tadawul. Surveillance and monitoring is the responsibility of Tadawul as the operator of the market to ensure fair trading and an orderly market.

## **17.9 Trading of Company's Shares**

It is expected that dealing in the Shares will commence on Tadawul after finalisation of the allocation process and the announcement of the start date of trading by Tadawul. Dates and times included in this Prospectus are only indicative and may be changed or extended subject to the approval of the CMA. Following Admission, Saudi nationals, non-Saudi nationals holding valid residency permits in Saudi Arabia, GCC nationals, companies, banks, and mutual funds will be permitted to trade in the Offer Shares once they are traded on the Exchange (Tadawul). Moreover, Qualified Foreign Investors and Approved QFI Clients will be permitted to trade in the Shares in accordance with Rules for Qualified Foreign Financial Institutions Investment in Listed Shares. Non-Saudi nationals living outside the Kingdom and institutions registered outside the Kingdom will also have the right to invest indirectly to acquire economic benefits in the shares by entering into swap agreements with persons authorised by the CMA to acquire, hold and trade in shares on Tadawul on behalf of a Foreign Investor. It should be noted that Authorised Persons shall be deemed the legal owners of the shares under the swap agreements.

Furthermore, Shares can only be traded after allocated Offer Shares have been credited to Subscribers' accounts at Tadawul, the Company has been registered and its Shares listed on the Exchange. Pre-trading in Shares is strictly prohibited and Subscribers entering into any pre-trading activities will be acting at their own risk. The Company and the Selling Shareholders shall have no legal responsibility in connection with pre-trading activities.

## **17.10 Miscellaneous**

The Subscription Application Form and all related terms, conditions, provisions, covenants and undertakings shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; provided that neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned and delegated by any of the parties to the subscription without the prior written consent of the other party.

These instructions, the conditions and the receipt of any Subscription Application Forms or related contracts shall be governed, construed and enforced in accordance with the laws of the Kingdom.

This Prospectus has been released in both Arabic and English languages. In the event of a discrepancy between the English and the Arabic text, the Arabic text of this Prospectus shall prevail.

The distribution of this Prospectus and the sale of the Offer Shares in any country other than the Kingdom are expressly prohibited. The Company, Receiving Shareholders, Financial Advisor, Lead Manager and the Underwriter require recipients of this Prospectus to inform themselves of any regulatory restrictions on the Offer Shares and to observe all such restrictions.

## 18. Documents Available for Inspection

The following documents will be available for inspection at the Saudi Fransi Capital's head office on King Fahad Road, P.O. Box 23454, Riyadh 11426, Kingdom of Saudi Arabia, between 9:00 am and 5:00 pm from 18/08/1437H (corresponding to 25/05/2016G) until 08/09/1437H (corresponding to 13/06/2016G) for a period of no less than 20 days prior to the end of the Offering Period:

- (a) CMA announcement of the approval of the Offering;
- (b) Company's Shareholders' resolution authorising the Offering, dated 2/1/1437H (corresponding to 15/10/2015G);
- (c) Company's By-Laws (and those of its Subsidiaries);
- (d) Company's articles of association (and those of its Subsidiaries) and amendments thereto;
- (e) Company's commercial registration certificate issued by the MOCI and other constituent documents;
- (f) audited consolidated financial statements for the Company and its Subsidiaries for the financial years ended 31 December 2013G, 2014G, and 2015G;
- (g) letters of consent from each of:
  - (i) Financial Advisor, Lead Manager, Bookrunner and Underwriter (Saudi Fransi Capital) for the inclusion of its name and logo in this Prospectus;
  - (ii) the Auditors (Ernst & Young & Co. (Public Accountants)) for the inclusion of its name and logo as auditors of the Company for the years ended 31 December 2013G, 2014G, and 2015G, along with the audit report on the consolidated financial statements of the Company for the mentioned years/period;
  - (iii) the Financial Due Diligence Advisor (PricewaterhouseCoopers) for the inclusion of its name, logo and publications, if any, in this Prospectus;
  - (iv) the Market Consultant (Roland Berger Strategy Consultants Middle East W. L. L.) for the inclusion of its name, logo and publications, in this Prospectus;
  - (v) the Legal Advisor (White & Case LLP in association with the Law Firm of Zeyad Y. AlSalloum and Yazeed A. Al Toaimi), for the inclusion of his name and logo in this Prospectus;
- (h) valuation report prepared by the Financial Advisor;
- (i) Underwriting Agreement;
- (j) market study prepared by the Market Consultant; and
- (k) working capital report prepared by the Financial Due Diligence Advisor.

## **19. Consolidated Financial Statements and Auditor's Report**

This section contains the audited consolidated financial statements for the financial years ended 31 December 2013G, 2014G, and 2015G, and the accompanying notes thereto. They have been prepared in accordance with accounting standards generally accepted in the Kingdom and have been audited by the Chartered Accountant (Ernst & Young & Co. (Public Accountants)).

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**Consolidated FINANCIAL STATEMENTS**  
**31 DECEMBER 2015**





Ernst & Young & Co. (Public Accountants)  
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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
L'AZURDE COMPANY FOR JEWELRY (Saudi Joint Stock Company)**

**Scope of audit**

We have audited the accompanying consolidated balance sheet of L'azurde Company for Jewelry - Saudi Joint Stock Company - (the "Company"), and its subsidiaries (together the "Group") as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in the shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with article 123 of the Regulations for Companies and submitted to us together with all the information and explanations, which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

**Unqualified Opinion**

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and its results of operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) Comply with the requirements of the Regulations for Companies and the Company's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

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



Riyadh: 24 Rabi Thani 1437H  
(3 February 2016)

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED BALANCE SHEET**  
**As at 31 December 2015**

|  | Notes | 2015<br>SR    | 2014<br>SR    |
|--|-------|---------------|---------------|
| ASSETS   |       |               |               |
| CURRENT ASSETS   |       |               |               |
| Cash and cash equivalents                                | 4     | 173,438,279   | 62,554,885    |
| Margin deposits  | 5     | 116,672,019   | 221,063,348   |
| Accounts receivable                                      | 6     | 389,908,346   | 279,793,242   |
| Inventories  | 7     | 975,644,876   | 977,530,359   |
| Prepayments and other receivables                        | 8     | 36,580,839    | 30,502,895    |
| TOTAL CURRENT ASSETS                                     |       | 1,692,244,359 | 1,571,444,729 |
| NON-CURRENT ASSETS                                       |       |               |               |
| Property, plant and equipment                            | 10    | 75,197,606    | 65,669,260    |
| Intangible assets  | 11    | -             | 299,999       |
| TOTAL NON-CURRENT ASSETS                                 |       | 75,197,606    | 65,969,259    |
| TOTAL ASSETS   |       | 1,767,441,965 | 1,637,413,988 |
| LIABILITIES AND SHAREHOLDERS' EQUITY                     |       |               |               |
| CURRENT LIABILITIES                                      |       |               |               |
| Accounts payable, accrued expenses and other liabilities | 12    | 111,214,761   | 62,509,955    |
| Short-term loans   | 13    | 1,114,782,660 | 1,049,615,311 |
| Zakat and income tax liability                           | 14    | 18,034,654    | 13,152,593    |
| TOTAL CURRENT LIABILITIES                                |       | 1,244,032,075 | 1,125,277,859 |
| NON-CURRENT LIABILITIES                                  |       |               |               |
| Employees' terminal benefits                             | 15    | 31,398,243    | 28,938,869    |
| Deferred tax liability                                   | 14    | 991,046       | -             |
| TOTAL LIABILITIES  |       | 1,276,421,364 | 1,154,216,728 |
| SHAREHOLDERS' EQUITY                                     |       |               |               |
| Share capital  | 16    | 430,000,000   | 300,000,000   |
| Statutory reserve  | 17    | 10,056,720    | 52,509,121    |
| Retained earnings  |       | 89,855,476    | 151,709,362   |
| Foreign currency translation reserve                     |       | (38,891,595)  | (21,021,223)  |
| TOTAL SHAREHOLDERS' EQUITY                               |       | 491,020,601   | 483,197,260   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY               |       | 1,767,441,965 | 1,637,413,988 |

The consolidated financial statements have been approved by the Board of Directors on 3 February 2016 and signed on their behalf by:

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

\_\_\_\_\_  
Ayman Gamil  
Chief Financial Officer

The attached notes 1 to 30 form an integral part of these consolidated financial statements.

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED STATEMENT OF INCOME**  
**For the year ended 31 December 2015**

|   | Notes | 2015<br>SR      | 2014<br>SR      |
|---|-------|-----------------|-----------------|
| Revenue:                                    |       |                 |                 |
| Gold  |       | 2,284,094,159   | 2,248,511,483   |
| Operations                                  |       | 530,103,887     | 468,442,839     |
|   |       | 2,814,198,046   | 2,716,954,322   |
| Cost of Revenue:                            |       |                 |                 |
| Gold  |       | (2,284,094,159) | (2,248,511,483) |
| Operations                                  |       | (190,778,631)   | (167,260,000)   |
|   |       | (2,474,872,790) | (2,415,771,483) |
| GROSS PROFIT                                |       | 339,325,256     | 301,182,839     |
| EXPENSES                                    |       |                 |                 |
| Selling and marketing                       | 18    | (137,402,874)   | (121,564,285)   |
| General and administration                  | 19    | (52,444,432)    | (48,990,507)    |
|   |       | (189,847,306)   | (170,554,792)   |
| INCOME FROM MAIN OPERATIONS                 |       | 149,477,950     | 130,628,047     |
| Financial charges                           | 13    | (34,896,412)    | (27,964,164)    |
| Other income/(expenses), net                | 20    | 4,282,627       | (3,132,931)     |
| INCOME BEFORE ZAKAT AND INCOME TAX          |       | 118,864,165     | 99,530,952      |
| Zakat                                       | 14    | (14,311,093)    | (13,240,413)    |
| Income tax                                  | 14    | (3,985,875)     | -               |
| NET INCOME FOR THE YEAR                     |       | 100,567,197     | 86,290,539      |
| Earnings per share                          |       |                 |                 |
| Attributable to income from main operations | 21    | 3.48            | 3.04            |
| Attributable to net income                  | 21    | 2.34            | 2.01            |

The attached notes 1 to 30 form an integral part of these consolidated financial statements.

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2015**

|  | Notes | 2015<br>SR    | 2014<br>SR    |
|--|-------|---------------|---------------|
| OPERATING ACTIVITIES                                     |       |               |               |
| Income before zakat and income tax                       |       | 118,864,165   | 99,530,952    |
| Adjustments for:   |       |               |               |
| Depreciation   | 10    | 9,901,048     | 9,930,262     |
| Employees' terminal benefits expense                     | 15    | 7,950,272     | 6,551,641     |
| Gain on disposal of property, plant and equipment        | 20    | (194,689)     | (77,646)      |
| Intangible assets written off                            |       | 299,999       | -             |
| Impairment of prepayments                                | 20    | 1,551,366     | 2,014,714     |
| Melting costs and charge for slow moving inventory items |       | 2,577,455     | 5,852,058     |
| Doubtful debts reversal                                  | 18    | (5,174,952)   | (1,551,841)   |
|  |       | 135,774,664   | 122,250,140   |
| Changes in operating assets and liabilities:             |       |               |               |
| Accounts receivable                                      |       | (104,940,152) | (116,885,583) |
| Inventories  |       | (691,972)     | (133,961,665) |
| Prepayments and other receivables                        |       | (7,629,310)   | 4,961,874     |
| Accounts payable, accrued expenses and other liabilities |       | 16,831,322    | 3,027,535     |
| Proceeds from short-term gold loans, net                 |       | 65,167,349    | 233,579,350   |
| Changes in margin deposits                               |       | 104,391,329   | (103,536,802) |
| Net cash generated from operations                       |       | 208,903,230   | 9,434,849     |
| Zakat paid   | 14    | (12,423,861)  | (11,620,122)  |
| Employees' terminal benefits paid                        | 15    | (5,490,898)   | (1,352,490)   |
| Net cash from/(used in) operating activities             |       | 190,988,471   | (3,537,763)   |
| INVESTING ACTIVITIES                                     |       |               |               |
| Short-term deposits                                      |       | -             | 11,000,000    |
| Purchase of property, plant and equipment                | 10    | (23,405,207)  | (11,374,391)  |
| Proceeds from disposal of property, plant and equipment  |       | 4,170,502     | 1,432,855     |
| Net cash (used in)/generated from investing activities   |       | (19,234,705)  | 1,058,464     |
| FINANCING ACTIVITIES                                     |       |               |               |
| Dividends paid   | 25    | (43,000,000)  | (62,827,057)  |
| Net cash used in financing activities                    |       | (43,000,000)  | (62,827,057)  |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS     |       | 128,753,766   | (65,306,356)  |
| Cash and cash equivalents at the beginning of the year   |       | 62,554,885    | 134,421,715   |
| Foreign currency translation adjustments, net            |       | (17,870,372)  | (6,560,474)   |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR         |       | 173,438,279   | 62,554,885    |

The attached notes 1 to 30 form an integral part of these consolidated financial statements.

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the year ended 31 December 2015**

|   | Share capital<br>SR | Statutory reserve<br>SR | Retained earnings<br>SR | Foreign currency translation reserve<br>SR | Total<br>SR  |
|---|---------------------|-------------------------|-------------------------|--|--------------|
| Balance at 31 December 2013                   | 300,000,000         | 43,880,067              | 136,874,934             | (14,460,749)                               | 466,294,252  |
| Net income for the year                       | -                   | -                       | 86,290,539              | -  | 86,290,539   |
| Transferred to statutory reserve              | -                   | 8,629,054               | (8,629,054)             | -  | -            |
| Dividends paid (note 25)                      | -                   | -                       | (62,827,057)            | -  | (62,827,057) |
| Foreign currency translation adjustments, net | -                   | -                       | -                       | (6,560,474)                                | (6,560,474)  |
| Balance at 31 December 2014                   | 300,000,000         | 52,509,121              | 151,709,362             | (21,021,223)                               | 483,197,260  |
| Transferred to share capital (note 16)        | 130,000,000         | (52,509,121)            | (77,490,879)            | -  | -            |
| Net income for the year                       | -                   | -                       | 100,567,197             | -  | 100,567,197  |
| Transferred to statutory reserve              | -                   | 10,056,720              | (10,056,720)            | -  | -            |
| Dividends (note 25)                           | -                   | -                       | (74,873,484)            | -  | (74,873,484) |
| Foreign currency translation adjustments, net | -                   | -                       | -                       | (17,870,372)                               | (17,870,372) |
| Balance at 31 December 2015                   | 430,000,000         | 10,056,720              | 89,855,476              | (38,891,595)                               | 491,020,601  |

The attached notes 1 to 30 form an integral part of these consolidated financial statements.

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2015**

**1. ACTIVITIES**

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

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

The Company effectively owns and controls the following subsidiaries:

| Subsidiary company                                 | Direct and indirect shareholding % | Principal field of activities             | Commercial registration number | Country of incorporation |
|--|------------------------------------|---|--------------------------------|--------------------------|
| ORO Egypt Company ("ORO")                          | 100                                | Gold production and trading               | 7877                           | Arab Republic of Egypt   |
| L'azurde Company for Jewellery ("LCJ")             | 100                                | Gold production and trading               | 14997                          | Arab Republic of Egypt   |
| L'azurde Company for Jewelry LLC                   | 100                                | Gold trading                              | 1039193                        | United Arab Emirates     |
| L'azurde Jewellery LLC                             | 100                                | Gold trading                              | 1060233                        | United Arab Emirates     |
| L'azurde Company for Jewellery LLC ("LCJ LLC") (*) | 98                                 | Gold trading                              | 60716                          | State of Qatar           |
| Almujwharat Almasiah LLC (**)                      | 100                                | Trading of sunglasses and silver products | 1010236734                     | Kingdom of Saudi Arabia  |
| Kenaz LLC (**)                                     | 100                                | Trading of watches and perfumes           | 1010352574                     | Kingdom of Saudi Arabia  |

(\*) The direct ownership of the Company in LCJ LLC is 49%, however, based on the agreement with the nominee shareholders of LCJ LLC, the Company is entitled to 98% of the economic benefits of LCJ LLC.

(\*\*) During the current year, Almujwharat Almasiah LLC and Kenaz LLC were incorporated.

The Group has made an in-principle decision to seek an initial public offering (IPO) during 2016. Currently, the Group is in the process of preparing for an IPO and seeking required regulatory approvals.

The Board of Directors of the Company has approved the application to the related authorities to obtain the approval on offering 30% of the Company's shares by a way of public offering.

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**2. BASIS OF CONSOLIDATION**

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**Accounting convention**

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

**Use of estimates**

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

**Cash and cash equivalents**

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

**Accounts receivable**

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

**Inventories**

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

Raw material, consumables and other

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



**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

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

**Inventories**

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

Raw material, consumables and other

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

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

**Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

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

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

**Intangible assets**

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

**Impairment of non-current assets**

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

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

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

**Accounts payable and accruals**

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

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

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

**Provisions**

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

**Zakat and income tax**

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

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.

**Operating leases**

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

**Employees' terminal benefits**

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

**Dividends**

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

**Revenue recognition**

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

Revenue from the sale of gold is recognized when the significant risks and rewards of ownership have passed to the buyer; it is probable that economic benefits associated with the transaction will flow to the Group; the sale price can be measured reliably; the Group has no significant continuing involvement; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Other income is recognised when earned.

**Expenses**

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

**Gold revaluation**

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

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

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

**Foreign currency**

**Transactions**

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

**Foreign operations translations**

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

**Segmental reporting**

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

**4. CASH AND CASH EQUIVALENTS**

|                                | 2015        | 2014       |
|--------------------------------|-------------|------------|
|                                | SR          | SR         |
| Cash in hand and bank balances | 166,254,784 | 33,712,261 |
| Short-term deposits            | 7,183,495   | 28,842,624 |
|                                | 173,438,279 | 62,554,885 |

**5. MARGIN DEPOSITS**

These comprise deposits with several banks and are held as margin deposits (restricted) against short-term gold loans granted to the Company by certain banks (note 13).

**6. ACCOUNTS RECEIVABLE**

|                                    | 2015        | 2014         |
|------------------------------------|-------------|--------------|
|                                    | SR          | SR           |
| Trade receivables                  | 399,843,318 | 292,540,150  |
| Less: provision for doubtful debts | (9,934,972) | (12,746,908) |
|                                    | 389,908,346 | 279,793,242  |

**L'azurde Company for Jewelry and its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**7. INVENTORIES**

By component:

|   | 2015         | 2014         |
|---|--------------|--------------|
|   | SR           | SR           |
| Gold  | 835,470,179  | 837,366,591  |
| Diamonds, stones and pearls                                       | 137,781,650  | 139,238,323  |
| Materials and accessories   | 19,729,253   | 15,684,196   |
|   | 992,981,082  | 992,289,110  |
| Less: provision for melting costs and slow moving inventory items | (17,336,206) | (14,758,751) |
|   | 975,644,876  | 977,530,359  |

By stage of completion:

|   | 2015         | 2014         |
|---|--------------|--------------|
|   | SR           | SR           |
| Finished goods  | 605,457,817  | 621,209,346  |
| Raw material  | 385,298,463  | 368,670,844  |
| Work in progress  | 2,224,802    | 2,408,920    |
|   | 992,981,082  | 992,289,110  |
| Less: provision for melting costs and slow moving inventory items | (17,336,206) | (14,758,751) |
|   | 975,644,876  | 977,530,359  |

Gold inventory is secured against gold loans granted to the Company by certain banks (note 13).

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

**8. PREPAYMENTS AND OTHER RECEIVABLES**

|                       | 2015       | 2014       |
|-----------------------|------------|------------|
|                       | SR         | SR         |
| Advances to suppliers | 13,328,842 | 10,283,053 |
| Prepayments           | 16,732,162 | 14,806,864 |
| Advances to employees | 3,121,433  | 2,682,702  |
| Accrued income        | 402,276    | 138,729    |
| Other receivables     | 2,996,126  | 2,591,547  |
|                       | 36,580,839 | 30,502,895 |

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**9. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the Group includes major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. There were no significant transactions with the related parties during the current or prior year. Following is the detail of the related party balance as at end of the year:

|  | Balances   |            |
|--|------------|------------|
|  | 2015<br>SR | 2014<br>SR |
| Amount payable to L'azurde Holding Company, Parent | 2,827,551  | -          |

Certain senior employees of the Group have been granted a management incentive plan by the immediate parent company of the Group whereby these employees would be entitled to units, with their values linked to the equity price of the Company, at the fair value of the Company's share (from the perspective of selected employees) at the grant date. As at the reporting date, the Company has made deductions amounting to SR 2,827,551 from these selected employees on behalf of the immediate parent company being the partial purchase consideration of the units acquired by the selected employees. The above arrangement has no other impact on the consolidated statement of income and consolidated balance sheet of the Group.

**10. PROPERTY, PLANT AND EQUIPMENT**

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

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

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

**31 December 2015**

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

|                                  | Land<br>SR | Buildings<br>SR | Machinery<br>and<br>equipment<br>SR | Furniture<br>and<br>fixtures<br>SR | Motor<br>vehicles<br>SR | Office<br>equipment<br>SR | Tools, dies<br>and<br>other assets<br>SR | Leasehold<br>improvements<br>SR | Total<br>2015<br>SR | Total<br>2014<br>SR |
|----------------------------------|------------|-----------------|-------------------------------------|------------------------------------|-------------------------|---------------------------|--|---------------------------------|---------------------|---------------------|
| Cost:                            |            |                 |                                     |                                    |                         |                           |  |                                 |                     |                     |
| At the beginning of the year     | 640,177    | 76,273,053      | 71,789,525                          | 21,528,828                         | 9,489,349               | 26,334,307                | 13,881,837                               | 13,285,777                      | 233,222,853         | 232,427,757         |
| Reclassification                 | -          | (3,818,387)     | -                                   | -                                  | -                       | -                         | -  | 3,818,387                       | -                   | -                   |
| Additions                        | -          | 2,236,468       | 9,683,456                           | 872,617                            | 2,089,457               | 2,951,384                 | 341,367                                  | 5,230,458                       | 23,405,207          | 11,374,391          |
| Disposals                        | -          | -               | (14,737,895)                        | (6,593,857)                        | (1,007,246)             | (559,998)                 | -  | (3,456,526)                     | (26,355,522)        | (10,579,295)        |
| At the end of the year           | 640,177    | 74,691,134      | 66,735,086                          | 15,807,588                         | 10,571,560              | 28,725,693                | 14,223,204                               | 18,878,096                      | 230,272,538         | 233,222,853         |
| Accumulated Depreciation:        |            |                 |                                     |                                    |                         |                           |  |                                 |                     |                     |
| At the beginning of the year     | -          | 38,657,097      | 62,156,872                          | 20,053,861                         | 6,924,125               | 22,303,538                | 11,125,765                               | 6,332,335                       | 167,553,593         | 166,847,417         |
| Reclassification                 | -          | (656,547)       | -                                   | -                                  | -                       | -                         | -  | 656,547                         | -                   | -                   |
| Depreciation charge for the year | -          | 1,400,501       | 1,391,483                           | 448,637                            | 1,341,122               | 2,247,296                 | 612,306                                  | 2,459,703                       | 9,901,048           | 9,930,262           |
| Relating to disposals            | -          | -               | (11,771,888)                        | (6,577,129)                        | (993,595)               | (477,271)                 | -  | (2,559,826)                     | (22,379,709)        | (9,224,086)         |
| At the end of the year           | -          | 39,401,051      | 51,776,467                          | 13,925,369                         | 7,271,652               | 24,073,563                | 11,738,071                               | 6,888,759                       | 155,074,932         | 167,553,593         |
| Net book values:                 |            |                 |                                     |                                    |                         |                           |  |                                 |                     |                     |
| As at 31 December 2015           | 640,177    | 35,290,083      | 14,958,619                          | 1,882,219                          | 3,299,908               | 4,652,130                 | 2,485,133                                | 11,989,337                      | 75,197,606          |                     |
| As at 31 December 2014           | 640,177    | 37,615,956      | 9,632,653                           | 1,474,967                          | 2,565,224               | 4,030,769                 | 2,756,072                                | 6,953,442                       |                     | 65,669,260          |

**L'azurde Company for Jewelry and its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

Depreciation charge for the year was allocated in the consolidated statement of income as follows:

|   | 2015      | 2014      |
|---|-----------|-----------|
|   | SR        | SR        |
| Cost of revenue                               | 4,612,696 | 4,068,514 |
| Selling and marketing expenses (note 18)      | 3,361,071 | 4,111,664 |
| General and administration expenses (note 19) | 1,927,281 | 1,750,084 |
|   | 9,901,048 | 9,930,262 |

**11. INTANGIBLE ASSETS**

These comprised of the value of capitalized cost of registering the trademarks of the Group in different countries. During 2015, the Group decided to fully expense these costs.

**12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

|  | 2015        | 2014       |
|--|-------------|------------|
|  | SR          | SR         |
| Trade accounts payable                 | 20,950,602  | 21,996,250 |
| Accrued expenses                       | 46,355,551  | 29,389,742 |
| Dividend payable (note 25)             | 31,873,484  | -          |
| Accrued financial charges              | 4,835,776   | 3,721,906  |
| Amount due to a related party (note 9) | 2,827,551   | -          |
| Employee payables                      | 923,473     | 3,475,350  |
| Unrealised gain on gold revaluation    | 1,533       | 316,230    |
| Other payables                         | 3,446,791   | 3,610,477  |
|  | 111,214,761 | 62,509,955 |

**13. SHORT-TERM LOANS**

Short-term loans primarily consist of Islamic Murabaha and gold loans granted by certain banks, at commercial commission rates, which are mainly secured by restricted margin deposits (note 5) and gold inventory (note 7). As at 31 December, the details are as follows:

|                              | Type of           | 2015          | 2014          |
|------------------------------|-------------------|---------------|---------------|
|                              | Loan              | SR            | SR            |
| The National Commercial Bank | Murabaha          | 502,429,885   | 304,807,129   |
| Saudi Hollandi Bank          | Murabaha          | 401,031,837   | 428,694,653   |
| Samba Financial Group        | Murabaha          | 211,320,938   | -             |
| Samba Financial Group        | Gold loan         | -             | 145,590,018   |
| Standard Bank                | Commodity netting | -             | 121,026,378   |
| Banque Saudi Fransi          | Gold loan         | -             | 35,040,123    |
| The Bank of Nova Scotia      | Gold loan         | -             | 14,457,010    |
|                              |                   | 1,114,782,660 | 1,049,615,311 |



**L'azurde Company for Jewelry and its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**13. SHORT-TERM LOANS (continued)**

Movement in short term loans during the year was as follows:

|                              | 2015             | 2014            |
|------------------------------|------------------|-----------------|
|                              | SR               | SR              |
| At the beginning of the year | 1,049,615,311    | 816,035,961     |
| Borrowings                   | 10,453,760,693   | 10,178,059,366  |
| Repayments                   | (10,388,593,344) | (9,944,480,016) |
| At the end of the year       | 1,114,782,660    | 1,049,615,311   |

**14. ZAKAT AND INCOME TAX**

**A) ZAKAT**

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

**Charge for the year**

Zakat charge consists of the current year provision amounting to SR 14,311,093 (2014: SR 13,240,413), and is based on following:

|  | 2015<br>SR   | 2014<br>SR   |
|--|--------------|--------------|
| Equity                                   | 461,218,483  | 417,927,944  |
| Opening provisions and other adjustments | 40,522,804   | 43,240,793   |
| Book value of long-term assets           | (75,197,606) | (66,165,307) |
|  | 426,543,681  | 395,003,430  |
| Zakatable income for the year            | 137,739,514  | 116,951,094  |
| Zakat base                               | 564,283,195  | 511,954,524  |

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

**Movement in the provision**

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

|                              | 2015         | 2014         |
|------------------------------|--------------|--------------|
|                              | SR           | SR           |
| At the beginning of the year | 13,152,593   | 11,532,302   |
| Provided for the year        | 14,311,093   | 13,240,413   |
| Payments during the year     | (12,423,861) | (11,620,122) |
| At the end of the year       | 15,039,825   | 13,152,593   |

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**14. ZAKAT AND INCOME TAX (continued)**

**Status of assessments**

The Company has filed and paid the zakat returns for all years up to 2014 and obtained final certificates for all years. The Company received an assessment for the year 2004 which was finalized and settled. The Company received a request for information from Department of Zakat and Income Tax (DZIT) on 9 November 2015 requesting information relating to the years 2006-2014. The Company responded to this request for information on 21 January 2016.

Almujwharat Almasiah LLC and Kenaz LLC were incorporated during the year but have not yet started operations and have not yet been registered with DZIT.

**B) INCOME TAX**

Income tax pertains to ORO Egypt Company which has been provided for based on its estimated taxable profit at 22.5 per cent.

**Charge for the year**

Income tax charge for the current year consists of the following:

|                                | 2015      |
|--------------------------------|-----------|
|                                | SR        |
| Provision for the year         | 2,994,829 |
| Deferred income tax adjustment | 991,046   |
|                                | 3,985,875 |

**Status of assessments**

ORO Egypt Company (the 'Subsidiary'), registered in Arab Republic of Egypt, was exempt from Corporate Income Tax, according to the Egyptian law no. 8 of the year 1997, till 31 December 2014. The Subsidiary received tax assessments and settled its tax liabilities on non-exempt activities till the year 2011. In respect of the remaining years the Subsidiary has not received any assessment. The Subsidiary paid all taxes due on its non-exempt activities till date.

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

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

L'azurde Company for Jewellery LLC which is registered in the State of Qatar has filed the tax return for year 2014. No tax has been provided by L'azurde Company for Jewellery LLC since it has accumulated tax losses.

**15. EMPLOYEES' TERMINAL BENEFITS**

|                              | 2015        | 2014        |
|------------------------------|-------------|-------------|
|                              | SR          | SR          |
| At the beginning of the year | 28,938,869  | 23,739,718  |
| Charge for the year          | 7,950,272   | 6,551,641   |
| Payments during the year     | (5,490,898) | (1,352,490) |
| At the end of the year       | 31,398,243  | 28,938,869  |

**L'azurde Company for Jewelry and its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**16. SHARE CAPITAL**

Share capital is divided into 43,000,000 shares (2014: 30,000,000 shares) of SR 10 each.

During 2015, the shareholders of the Company resolved to increase the capital of the Company to SR 430 million by transferring SR 52,509,121 and SR 77,490,879 from statutory reserve and retained earnings respectively to share capital. The legal formalities required to enforce the increase of the share capital were completed during the year.

**17. STATUTORY RESERVE**

In accordance with Saudi Arabian Regulations for Companies, 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 50% of its capital. The reserve is not available for distribution.

During 2015, the Company transferred SR 52,509,121 from statutory reserve to share capital (note 15).

**18. SELLING AND MARKETING EXPENSES**

|   | 2015<br>SR  | 2014<br>SR  |
|---|-------------|-------------|
| Advertisements and promotional activities | 46,286,321  | 42,945,759  |
| Gold calibration charges                  | 31,992,476  | 23,442,873  |
| Salaries and employees' benefits          | 25,883,398  | 23,021,791  |
| Sales commissions                         | 14,794,114  | 11,881,355  |
| Rent                                      | 9,114,235   | 7,727,984   |
| Depreciation                              | 3,361,071   | 4,111,664   |
| Travel                                    | 1,885,548   | 1,795,130   |
| Insurance                                 | 1,300,255   | 981,906     |
| Doubtful debts reversal                   | (5,174,952) | (1,551,841) |
| Other expenses                            | 7,960,408   | 7,207,664   |
|   | 137,402,874 | 121,564,285 |

**19. GENERAL AND ADMINISTRATION EXPENSES**

|  | 2015<br>SR | 2014<br>SR |
|--|------------|------------|
| Salaries and employees' benefits       | 39,479,562 | 37,307,332 |
| Consultancy and professional fees      | 3,748,716  | 2,817,875  |
| Travel                                 | 1,982,900  | 1,917,391  |
| Depreciation                           | 1,927,281  | 1,750,084  |
| Printing, stationery and communication | 949,941    | 1,078,605  |
| Repairs and maintenance                | 679,966    | 629,801    |
| Charity and donations                  | 15,000     | 15,000     |
| Other expenses                         | 3,661,066  | 3,474,419  |
|  | 52,444,432 | 48,990,507 |

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

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

|  | 2015<br>SR  | 2014<br>SR  |
|--|-------------|-------------|
| Gain from foreign currency exchange differences, net | 7,260,458   | 2,116,434   |
| Gain on disposal of property, plant and equipment    | 194,689     | 77,646      |
| Loss on closure of showroom                          | (549,189)   | (2,184,000) |
| Impairment of prepayments                            | (1,551,366) | (2,014,714) |
| Bank charges   | (1,055,837) | (1,003,349) |
| Miscellaneous  | (16,128)    | (124,948)   |
|  | 4,282,627   | (3,132,931) |

**21. EARNINGS PER SHARE**

Earnings per share is calculated based on the weighted average number of outstanding shares during the year. The weighted average number of outstanding shares during 2015 were 43 million shares. The weighted average number of outstanding shares during 2014 have been retrospectively adjusted to reflect the bonus element for the shares issued during 2015.

The earnings per share attributable to income from main operations has increased by 14 per cent to SR 3.48 per share for the year ended 31 December 2015 from SR 3.04 per share for the year ended 31 December 2014.

**22. OPERATING LEASES**

Rent expenses are related to operating leases. During 2015, an amount of SR 9,114,235 (2014: SR 7,727,984) was recognised as an expense in the consolidated statement of income in respect of operating leases (see note 18).

**L'azurde Company for Jewelry and its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**23. SEGMENTAL INFORMATION**

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

The Group is organised into the following main business segments:

|   | Retail       | Wholesale       | Total           |
|---|--------------|-----------------|-----------------|
|   | SR           | SR              | SR              |
| For the year ended 31 December 2015:            |              |                 |                 |
| Revenue   | 84,187,994   | 2,730,010,052   | 2,814,198,046   |
| Gross profit                                    | 26,903,361   | 312,421,895     | 339,325,256     |
| Net book value of property, plant and equipment | 6,701,722    | 68,495,884      | 75,197,606      |
| Total assets                                    | 62,659,249   | 1,704,782,716   | 1,767,441,965   |
| Total liabilities                               | (7,830,610)  | (1,268,590,754) | (1,276,421,364) |
| For the year ended 31 December 2014:            |              |                 |                 |
| Revenue   | 73,194,779   | 2,643,759,543   | 2,716,954,322   |
| Gross profit                                    | 22,781,598   | 278,401,241     | 301,182,839     |
| Net book value of property, plant and equipment | 6,538,778    | 59,130,482      | 65,669,260      |
| Total assets                                    | 66,549,150   | 1,570,864,838   | 1,637,413,988   |
| Total liabilities                               | (10,389,528) | (1,143,827,200) | (1,154,216,728) |

The primary markets for the Group's products are the Kingdom of Saudi Arabia, other GCC countries and Egypt. Following is a geographical segment analysis of Group's total revenue and non-current assets:

**Geographical segments**

|                                     | UAE         | Egypt         | Saudi Arabia  | Qatar      | Total         |
|-------------------------------------|-------------|---------------|---------------|------------|---------------|
|                                     | SR          | SR            | SR            | SR         | SR            |
| For the year ended 31 December 2015 |             |               |               |            |               |
| Revenue                             | 335,497,007 | 1,380,227,611 | 1,084,878,380 | 13,595,048 | 2,814,198,046 |
| Non-current assets                  | 6,674,455   | 23,836,942    | 44,686,209    | -          | 75,197,606    |
| For the year ended 31 December 2014 |             |               |               |            |               |
| Revenue                             | 357,873,942 | 1,406,210,079 | 952,870,301   | -          | 2,716,954,322 |
| Non-current assets                  | 7,301,603   | 17,256,663    | 41,410,993    | -          | 65,969,259    |

**24. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

The fair values of financial instruments at the reporting date are not materially different from their carrying values.

**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

## **25. DIVIDENDS**

On 13 Sha'aban 1436H (corresponding to 31 May 2015) the Board of Directors recommended and approved to distribute interim cash dividends of SR 1 per share with total amount of SR 43 million.

On 5 Muharram 1437H (corresponding to 17 October 2015) the Board of Directors recommended and approved to distribute interim cash dividends of SR 0.741 per share with total amount of SR 31,873,484.

On 18 Dhul Hijjah 1435H (corresponding to 12 October 2014) the Board of Directors recommended and approved to distribute interim cash dividends at SR 2.09 per share with total amount of SR 62,827,057. In the meeting dated 4 Rajab 1436H (corresponding to 23 April 2015), the general assembly approved dividends of SR 62,827,057 (SR 2.09 per share) which was paid to the shareholders during the previous year.

## **26. RISK MANAGEMENT**

### **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 price. The management minimizes its risk relating to the gold price fluctuation by maintaining equal quantity of gold in assets and liabilities where deemed practical. As at 31 December, gold accounts were as follows:

|                           | 2015            |                        | 2014            |                        |
|---------------------------|-----------------|------------------------|-----------------|------------------------|
|                           | SR              | Grams<br>(in 24 karat) | SR              | Grams<br>(in 24 karat) |
| Gold asset – inventories  | 805,684,210     | 6,285,130              | 807,942,436     | 5,583,520              |
| Gold asset – receivables  | 309,554,015     | 2,414,826              | 246,585,883     | 1,704,102              |
| Gold liability – payables | (400,334)       | (3,123)                | (4,846,918)     | (33,496)               |
| Gold liability – loans    | (1,114,782,660) | (8,696,402)            | (1,049,615,311) | (7,253,428)            |
| Net gold assets           | 55,231          | 431                    | 66,090          | 698                    |

Gold market price was SR 128.19 per gram in 24 karat gold as at 31 December 2015 (2014: SR 144.71 per gram) and USD 1,063.25 per ounce in 24 karat gold as at 31 December 2015 (2014: USD 1,200.25 per ounce).

### **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group transactions are principally in Saudi Riyals, Euros, US Dollars and Egyptian Pounds. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation has been accounted for in the consolidated financial statements.

### **Interest rate risk**

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

### **Credit risk**

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

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

**L'azurde Company for Jewelry and its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**26. RISK MANAGEMENT (continued)**

**Liquidity risk**

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

**27. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

**Impairment of accounts receivable**

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of the past due receivables.

At the reporting date, gross accounts receivable were SR 399,843,318 with SR 9,934,972 being maintained as provision for doubtful debts (2014: gross accounts receivable of SR 292,540,150 with provision for doubtful debt of SR 12,746,908). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

**Impairment of inventories**

Inventory consists of gold and other items. Gold is valued at market price. Other inventory items are held at the lower of cost and market value. When gold inventories become old or obsolete, an estimate is made for the melting cost for all non-sellable inventory items that would need to be molten or reworked to be used again in production. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated cost for melting or rework.

At the balance sheet date, gross inventories were SR 992,981,082 (2014: SR 992,289,110) with provision for melting costs and slow moving inventory items amounting to SR 17,336,206 (2013: SR 14,758,751) held there against. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income. The provisions against inventories comprise the following:

- Provision for gold melting cost;
- Provision for slow moving diamond jewellery and loose diamonds; and
- Provision for other slow moving inventory items

**Useful lives of property, plant and equipment**

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

Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**Zakat and income tax**

Significant judgment is required in determining the provision for zakat and income tax. There are many transactions and calculations for which the ultimate zakat and income tax determination is uncertain. The Group recognises liabilities for anticipated zakat and income tax based on estimation of whether additional zakat and income tax will be due.



**L'azurde Company for Jewelry and its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2015**

**28. CONTINGENT LIABILITIES**

The Group's bankers have issued letters of guarantees amounting to SR 689,000 (2014: SR 855,000) in respect of its operations and are outstanding at the reporting date.

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

The consolidated financial statements were approved by the Board of Directors on 24 Rabi Thani 1437H, (corresponding to 3 February 2016).

**30. COMPARATIVE FIGURES**

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

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

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

**Scope of Audit**

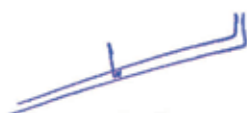
We have audited the accompanying consolidated balance sheet of L'azurde Company for Jewelry - Saudi Joint Stock Company - (the "Company"), and its subsidiaries (the "Group") as at 31 December 2014 and the related consolidated statements of income, cash flows and changes in the shareholders' equity for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

**Unqualified Opinion**

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

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

for Ernst & Young



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



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

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

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

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

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

\_\_\_\_\_  
Ayman Gamil  
Chief Financial Officer

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

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

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

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

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

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

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

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

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

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



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

## 1. ACTIVITIES

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

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

The Company effectively owns and controls the following subsidiaries:

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

## 2. BASIS OF CONSOLIDATION

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

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**Accounting convention**

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

**Use of estimate**

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

**Cash and cash equivalents**

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

**Accounts receivable**

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

**Property, plant and equipment**

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

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

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

**Intangible assets**

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

**Impairment of non-current assets**

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

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

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

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

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

**Accounts payable and accruals**

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

**Provisions**

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

**Inventories**

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

Raw material, consumables and other

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

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

**Zakat and income tax**

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

**Operating leases**

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

**Employees' terminal benefits**

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

**Dividends**

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

**Revenue recognition**

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

Other income is recognised when earned.

**Expenses**

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

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

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

**Gold revaluation**

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

**Foreign currency**

**Transactions**

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

**Foreign operations translations**

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

**Segmental reporting**

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

**4. CASH AND CASH EQUIVALENTS**

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

**5. MARGIN DEPOSITS**

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

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

**6. ACCOUNTS RECEIVABLE**

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

**7. INVENTORIES**

By component:

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

By stage of completion:

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

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

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

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

**8. PREPAYMENTS AND OTHER RECEIVABLES**

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

**9. PROPERTY, PLANT AND EQUIPMENT**

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

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

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

**31 December 2014**

**9. PROPERTY, PLANT AND EQUIPMENT (continued)**

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



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

**9. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

**10. INTANGIBLE ASSETS**

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

**11. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

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

**12. SHORT-TERM LOANS**

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

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

**13. ZAKAT AND INCOME TAX**

**A) ZAKAT**

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

**Charge for the year**

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

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

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

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

Movement in the provision

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

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

**Status of assessments**

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

**B) INCOME TAX**

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

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

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

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

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

**14. EMPLOYEES' TERMINAL BENEFITS**

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

**15. SHARE CAPITAL**

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

**16. STATUTORY RESERVE**

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

**17. SELLING AND MARKETING EXPENSES**

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

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

**18. GENERAL AND ADMINISTRATION EXPENSES**

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

**19. OTHER EXPENSES, NET**

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

**20. EARNINGS PER SHARE**

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

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

**21. OPERATING LEASES**

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

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

**22. SEGMENTAL INFORMATION**

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

The Group is organised into the following main business segments:

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

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

**23. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

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

**24. DIVIDENDS**

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

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

**25. RISK MANAGEMENT**

**Gold price risk**

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

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

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

**Currency risk**

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

**Interest rate risk**

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

**Credit risk**

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

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

**Liquidity risk**

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

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

**26. CONTINGENT LIABILITIES**

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

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

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

**28. COMPARATIVE FIGURES**

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



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



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

### **Scope of Audit**

We have audited the accompanying consolidated balance sheet of L'azurde Company for Jewelry - Saudi Joint Stock Company - (the "Company"), and its subsidiaries (the "Group") as at 31 December 2013 and the related consolidated statements of income, cash flows and changes in the shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with article 123 of the Regulations for Companies and submitted to us together with all the information and explanations, which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

### **Unqualified Opinion**

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013 and its results of operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) Comply with the requirements of the Regulations for Companies and the Company's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



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

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

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

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

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

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

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

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED STATEMENT OF INCOME**  
**For the year ended 31 December 2013**

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

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2013**

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

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the year ended 31 December 2013**

|  | Share capital<br>SR | Statutory reserve<br>SR | Retained earnings<br>SR | Foreign currency translation<br>adjustments<br>SR | Total<br>SR |
|--|---------------------|-------------------------|-------------------------|---|-------------|
| Balance at 31 December 2011              | 300,000,000         | 31,314,656              | 23,786,232              | (5,031,853)                                       | 350,069,035 |
| Net income for the year                  | -                   | -                       | 51,476,139              | -   | 51,476,139  |
| Transferred to statutory reserve         | -                   | 5,147,614               | (5,147,614)             | -   | -           |
| Foreign currency translation adjustments | -                   | -                       | -                       | (3,369,813)                                       | (3,369,813) |
| Balance at 31 December 2012              | 300,000,000         | 36,462,270              | 70,114,757              | (8,401,666)                                       | 398,175,361 |
| Net income for the year                  | -                   | -                       | 74,177,974              | -   | 74,177,974  |
| Transferred to statutory reserve         | -                   | 7,417,797               | (7,417,797)             | -   | -           |
| Foreign currency translation adjustments | -                   | -                       | -                       | (6,059,083)                                       | (6,059,083) |
| Balance at 31 December 2013              | 300,000,000         | 43,880,067              | 136,874,934             | (14,460,749)                                      | 466,294,252 |

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

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

## 1. ACTIVITIES

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

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

The Company effectively owns the following subsidiaries:

| Subsidiary company                                  | Direct and indirect shareholding % | Principal field of activities | Commercial registration number | Country of incorporation |
|---|------------------------------------|-------------------------------|--------------------------------|--------------------------|
| ORO Egypt Company                                   | 100                                | Gold production and trading   | 7877                           | Arab Republic of Egypt   |
| International Company for Jewelry Manufacturing (*) | 100                                | Gold manufacturing            | 546                            | Arab Republic of Egypt   |

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

## 2. BASIS OF CONSOLIDATION

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### Accounting convention

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



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

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

**Use of estimate**

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

**Cash and cash equivalents**

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

**Accounts receivable**

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

**Property, plant and equipment**

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

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

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

**Intangible assets**

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

**Impairment of non-current assets**

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

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

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

**Accounts payable and accruals**

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

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

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

**Provisions**

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

**Inventories**

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

Raw material, consumables and other

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

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

**Zakat and income tax**

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

**Operating leases**

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

**Employees' terminal benefits**

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

**Revenue recognition**

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

Other income is recognised when earned.

**Expenses**

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

**Gold revaluation**

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

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

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

**Foreign currency**

**Transactions**

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

**Foreign operations translations**

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

**Segmental reporting**

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

**4. CASH AND CASH EQUIVALENTS**

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

**5. MARGIN DEPOSITS**

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

**6. ACCOUNTS RECEIVABLE**

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

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**7. INVENTORIES**

By component:

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

By stage of completion:

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

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

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

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**8. PREPAYMENTS AND OTHER RECEIVABLES**

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

**9. PROPERTY, PLANT AND EQUIPMENT**

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

|                         |     |                              |  |
|-------------------------|-----|------------------------------|--|
| Buildings               | 3%  | Office equipment             | 15% to 50%   |
| Machinery and equipment | 15% | Tools, dies and other assets | 15% to 25%   |
| Furniture and fixtures  | 15% | Leasehold improvements       | Useful life of the improvements or the term of the lease, whichever is shorter |
| Motor vehicles          | 25% |                              |  |

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**9. PROPERTY, PLANT AND EQUIPMENT**

|                              | Land<br>SR | Buildings<br>SR | Machinery<br>and<br>equipments<br>SR | Furniture<br>and<br>fixtures<br>SR | Motor<br>vehicles<br>SR | Office<br>equipment<br>SR | Tools, dies<br>and<br>other assets<br>SR | Leasehold<br>improvements<br>SR | Total<br>2013<br>SR | Total<br>2012<br>SR |
|------------------------------|------------|-----------------|--------------------------------------|------------------------------------|-------------------------|---------------------------|--|---------------------------------|---------------------|---------------------|
| Cost:                        |            |                 |                                      |                                    |                         |                           |  |                                 |                     |                     |
| At the beginning of the year | 640,177    | 72,775,117      | 71,730,133                           | 20,773,291                         | 8,438,615               | 22,104,523                | 13,669,536                               | 15,418,968                      | 225,550,360         | 210,897,107         |
| Reclassifications            | -          | -               | -                                    | -                                  | -                       | 1,278,490                 | (1,278,490)                              | -                               | -                   | -                   |
| Additions                    | -          | 3,858,170       | 5,517,695                            | 668,683                            | 2,310,016               | 2,254,942                 | 319,927                                  | 2,844,046                       | 17,773,479          | 15,964,357          |
| Disposals                    | -          | -               | (8,047,745)                          | (150,497)                          | (891,311)               | (305,572)                 | (8,831)                                  | (1,492,126)                     | (10,896,082)        | (1,311,104)         |
| At the end of the year       | 640,177    | 76,633,287      | 69,200,083                           | 21,291,477                         | 9,857,320               | 25,332,383                | 12,702,142                               | 16,770,888                      | 232,427,757         | 225,550,360         |
| Depreciation:                |            |                 |                                      |                                    |                         |                           |  |                                 |                     |                     |
| At the beginning of the year | -          | 34,876,805      | 64,397,414                           | 19,299,913                         | 6,718,663               | 17,545,027                | 11,092,946                               | 7,336,165                       | 161,266,933         | 151,309,436         |
| Reclassifications            | -          | -               | -                                    | -                                  | -                       | 573,785                   | (573,785)                                | -                               | -                   | -                   |
| Charge for the year          | -          | 2,239,146       | 3,750,954                            | 519,267                            | 962,425                 | 2,082,431                 | 209,044                                  | 1,913,358                       | 11,676,625          | 10,861,637          |
| Disposals                    | -          | -               | (5,014,398)                          | (113,282)                          | (864,656)               | (101,156)                 | (2,649)                                  | -                               | (6,096,141)         | (904,140)           |
| At the end of the year       | -          | 37,115,951      | 63,133,970                           | 19,705,898                         | 6,816,432               | 20,100,087                | 10,725,556                               | 9,249,523                       | 166,847,417         | 161,266,933         |
| Net book values:             |            |                 |                                      |                                    |                         |                           |  |                                 |                     |                     |
| As at 31 December 2013       | 640,177    | 39,517,336      | 6,066,113                            | 1,585,579                          | 3,040,888               | 5,232,296                 | 1,976,586                                | 7,521,365                       | 65,580,340          |                     |
| As at 31 December 2012       | 640,177    | 37,898,312      | 7,332,719                            | 1,473,378                          | 1,719,952               | 4,559,496                 | 2,576,590                                | 8,082,803                       |                     | 64,283,427          |

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**10. INTANGIBLE ASSETS**

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

**11. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

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

**12. SHORT-TERM LOANS**

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

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

**13. ZAKAT AND INCOME TAX**

**A) ZAKAT**

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

**Charge for the year**

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

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

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

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



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**13. ZAKAT AND INCOME TAX**

***Movement in the provision***

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

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

***Status of assessments***

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

**B) INCOME TAX**

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

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

**14. EMPLOYEES' TERMINAL BENEFITS**

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

**15. SHARE CAPITAL**

Share capital is divided into 30,000,000 shares (2012: 30,000,000 shares) of SR 10 each.

**16. STATUTORY RESERVE**

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

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**17. SELLING AND MARKETING EXPENSES**

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

**18. GENERAL AND ADMINISTRATION EXPENSES**

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

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

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

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## 20. EARNINGS PER SHARE

Earnings per share is calculated based on the number of outstanding shares at the end of the year. The outstanding number of shares at 31 December 2013 and 2012 is 30 million shares.

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

## 21. OPERATING LEASES

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

## 22. SEGMENTAL INFORMATION

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

The Group is organised into the following main business segments:

|   | Retail      | Wholesale     | Total         |
|---|-------------|---------------|---------------|
|   | SR          | SR            | SR            |
| For the year ended 31 December 2013:            |             |               |               |
| Sales   | 77,499,781  | 3,029,664,107 | 3,107,163,888 |
| Gross profit                                    | 19,952,282  | 251,040,800   | 270,993,082   |
| Net book value of property, plant and equipment | 8,068,202   | 57,512,138    | 65,580,340    |
| Total assets                                    | 72,204,902  | 1,317,361,295 | 1,389,566,197 |
| Total liabilities                               | (8,009,018) | (915,262,927) | (923,271,945) |
| For the year ended 31 December 2012:            |             |               |               |
| Sales   | 66,513,817  | 2,372,581,597 | 2,439,095,414 |
| Gross profit                                    | 20,785,850  | 195,427,591   | 216,213,441   |
| Net book value of property, plant and equipment | 6,268,086   | 58,015,341    | 64,283,427    |
| Total assets                                    | 72,743,328  | 1,234,811,999 | 1,307,555,327 |
| Total liabilities                               | (3,094,570) | (906,285,396) | (909,379,966) |

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

## 23. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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**24. RISK MANAGEMENT**

**Gold price risk**

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

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

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

**Currency risk**

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

**Interest rate risk**

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

**Credit risk**

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

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

**Liquidity risk**

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

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**25. CONTINGENT LIABILITIES**

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

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

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

**27. COMPARATIVE FIGURES**

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

## Appendix A

The following table provides a summary overview of the legal entities in the ownership structure of the Company up to Gulf Investors Gold Holding Company W.L.L as at the date of this Prospectus:

**Table A.1: Overview of the Legal Entities in the Ownership Structure of the Company until Gulf Investors Gold Holding Company W.L.L as at the date of this Prospectus**

| Legal Entity                             | Overviews  |
|--|--|
| L'azurde Holding Company LLC             | <p><b>Principal Activities:</b> Investment in industrial, commercial and agricultural projects and participation in establishing other companies by way of holding controlling interests in them. It has no operating activities and is a mere passive SPV set up in connection with the investment in the Company and there are no plans to acquire ownership interests in other companies or engage in other activities.</p> <p><b>Shareholders and Voting:</b> Gulf Fifth Gemstone Saudi LLC and Khalifa Al-Jalahma. Resolutions of the Shareholders meeting are only effective if passed by a majority of the partners.</p> <p><b>Board of Directors:</b> James Tanner, Rabih Khouri, Ala Al Saleh, Mohammed Al Ali, Yasser Al Sharif, Mohammed Al Nasser and Abdulla Al Othaim.</p> <p>Resolutions of the Board of Directors are only effective if adopted by a simple majority vote of the Directors.</p> <p>The Consortium Agreement requires that the Board of Directors of the Company be appointed as the Board of Directors of L'azurde Holding Company LLC. However, prior to the Offering contemplated by this Prospectus, the Board of Directors of the Company was re-constituted in line with CMA regulations. The Board of Directors of L'azurde Holding Company has not been re-constituted as was agreed by the Consortium members.</p> |
| Gulf Fifth Gemstone Saudi LLC            | <p><b>Principal Activities:</b> Wholesale and retail trading of gold and jewellery machines. It has no operating activities and is a mere passive SPV set up in connection with the investment in L'azurde Holding Company LLC and there are no plans to acquire ownership interests in other companies or engage in other activities.</p> <p><b>Shareholders and Voting:</b> Gulf Fourth Gemstone Holding Company LLC and Abdulaziz Saleh Al-Othaim. Resolutions of the Shareholders meeting are only effective if passed by a majority of the partners</p> <p><b>Board of Directors:</b> Khalifa Al Jalahma, Rabih Khouri, Ala Al Saleh, Mohammed Al Ali, Yasser Al Sharif, Mohammed Al Nasser and Abdulla Al Othaim.</p> <p>Resolutions of the Board of Directors are only effective if adopted by a simple majority vote of the Directors.</p> <p>The Consortium Agreement requires that the Board of Directors of the Company be appointed as the Board of Directors of Gulf Fifth Gemstone Saudi LLC. However, prior to the Offering contemplated by this Prospectus, the Board of Directors of the Company was re-constituted in line with CMA regulations. The Board of Directors of Gulf Fifth Gemstone Saudi LLC has not been re-constituted as was agreed by the Consortium members.</p>  |
| Gulf Fourth Gemstone Holding Company LLC | <p><b>Principal Activities:</b> Wholesale and retail trading of gold and jewellery machines. It has no operating activities and is a mere passive SPV set up in connection with the investment in Gulf Fifth Gemstone Saudi LLC and there are no plans to acquire ownership interests in other companies or engage in other activities.</p> <p><b>Shareholders and Voting:</b> Gulf First Gemstone Holding Company W.L.L. and Gulf Second Gemstone Holding Company W.L.L. Resolutions of the Shareholders meeting are only effective if passed by a majority of the partners.</p> <p><b>Board of Directors:</b> Khalifa Al Jalahma, Rabih Khouri, Ala Al Saleh, Mohammed Al Ali and Mohammed Al Nasser.</p> <p>Resolutions of the Board of Directors are only effective if adopted by a simple majority vote of the Directors.</p> <p>In accordance with the Consortium Agreement, the Board of Directors is composed of five directors. Three of the directors have been appointed by Gulf Growth Gold Holding Company W.L.L, one Director by Eastgate MENA SPV5 Holding SPC, and one Director by Fidelity Invest LLC.</p>  |

| Legal Entity                               | Overviews   |
|--|---|
| Gulf First Gemstone Holding Company W.L.L  | <p><b>Principal Activities:</b> Investing in Gulf Fourth Gemstone Saudi Company LLC which in turn has invested through other holding companies in L'azurde Company for Jewelry JSC. It has no operating activities and is a mere passive SPV set up in connection with the investment in Gulf Fourth Gemstone Holding Company LLC and there are no plans to acquire ownership interests in other companies or engage in other activities.</p> <p><b>Shareholders and Voting:</b> Gulf Investors Gold Holding Company W.L.L. and Gulf Second Gemstone Holding Company W.L.L. Resolutions of the Shareholders meeting are only effective if passed by a majority of the partners.</p> <p><b>Board of Directors:</b> Ayman Husain AlArrayedh, Mufeed Abdulnabi Rajab, Yahya AbdulJalil, Ghazi Abdulrahin M AlRawi and Syed Abbas Marghoob Rizvi. Resolutions of the Board of Directors are only effective if adopted by a simple majority vote of the Directors.</p> <p>In accordance with the Consortium Agreement, the Board of Directors is composed of five directors. Three of the directors have been appointed by Gulf Growth Gold Holding Company W.L.L, one Director by Eastgate MENA SPV5 Holding SPC, and one Director by Fidelity Invest LLC.</p>  |
| Gulf Second Gemstone Holding Company W.L.L | <p><b>Principal Activities:</b> Investing in Gulf Fourth Gemstone Saudi Company LLC which in turn has invested through other holding companies in L'azurde Company for Jewelry JSC. It has no operating activities and is a mere passive SPV set up in connection with the investment in Gulf Fourth Gemstone Holding Company L.L.C and there are no plans to acquire ownership interests in other companies or engage in other activities.</p> <p><b>Shareholders and Voting:</b> Gulf Investors Gold Holding Company W.L.L. and Gulf First Gemstone Holding Company W.L.L. Resolutions of the Shareholders meeting are only effective if passed by a majority of the partners.</p> <p><b>Board of Directors:</b> Ayman Husain AlArrayedh, Mufeed Abdulnabi Rajab, Yahya AbdulJalil, Ghazi Abdulrahin M AlRawi and Syed Abbas Marghoob Rizvi. Resolutions of the Board of Directors are only effective if adopted by a simple majority vote of the Directors.</p> <p>In accordance with the Consortium Agreement, the Board of Directors is composed of five directors. Three of the directors have been appointed by Gulf Growth Gold Holding Company W.L.L, one Director by Eastgate MENA SPV5 Holding SPC, and one Director by Fidelity Invest LLC.</p>   |
| Gulf Investors Gold Holding Company W.L.L  | <p><b>Principal Activities:</b> Investing in Gulf First Gemstone Holding Company W.L.L and Gulf Second Gemstone Holding Company W.L.L, which in turn have invested through other holding companies in L'azurde Company for Jewelry JSC. It has no operating activities and is a mere passive SPV set up in connection with the investment in Gulf First Gemstone Holding Company W.L.L. and Gulf Second Gemstone Holding Company W.L.L., and there are no plans to acquire ownership interests in other companies or engage in other activities.</p> <p><b>Shareholders and Voting:</b> Gulf Growth Gold Holding Company W.L.L., Fidelity Invest Owned by The National Investor PJS - One Man Company LLC and Eastgate MENA SPV5 Holding S.P.C. Resolutions of the Shareholders meeting are only effective if passed by a majority of the partners.</p> <p><b>Board of Directors:</b> Ayman Husain AlArrayedh, Mufeed Abdulnabi Rajab, Syed Abbas Marghoob Rizvi, Yahya AbdulJaliland Ghazi Abdulrahin M AlRawi. Resolutions of the Board of Directors are only effective if adopted by a simple majority vote of the Directors.</p> <p>In accordance with the Consortium Agreement, the Board of Directors is composed of five directors. Three of the directors have been appointed by Gulf Growth Gold Holding Company W.L.L, one Director by Eastgate MENA SPV5 Holding SPC, and one Director by Fidelity Invest LLC.</p> |

Source: The Company

This Appendix also contains more detailed information regarding the shareholding structure of Gulf Investors Gold Holding Company W.L.L., a company registered under commercial registration No.70520 -1 dated 3/12/1429H (corresponding to 1/12/2008G). Gulf Investors Gold Holding Company W.L.L.'s head office and registered office is located in Flat 32, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 250,000 (equivalent to SAR 2,489,975) divided into 5,000 shares with a fully paid up nominal value of BHD 50 (equivalent to SAR 498) per share.

As discussed in Section 4.4.2.5 ("L'azurde Holding Company") in further detail, in 2009, the Consortium comprised of Gulf Growth Gold Holding Company W.L.L., Fidelity Invest Owned by The National Investor



PJS - One Man Company LLC and Eastgate MENA SPV5 Holding S.P.C. acquired indirectly through Gulf Investors Gold Holding Company W.L.L. a majority stake of 70% in the Company pursuant to a share purchase agreement between the Consortium, Abdulaziz Saleh Al Othaim and Saleh Abdulaziz Al Othaim. In 2010, the Consortium increased its shareholding by 7.5% in the Company from the selling shareholders pursuant to the terms of the same share purchase agreement between the Consortium, Abdulaziz Saleh Al Othaim and Saleh Abdulaziz Al Othaim. As at the date of this Prospectus, Gulf Investors Gold Holding Company W.L.L. serves primarily as a holding company established by the Consortium, holding 4,995 shares in each of Gulf First Gemstone Holding Company W.L.L. and 4,995 shares in Gulf Second Gemstone Holding Company W.L.L. (representing 99.9% of each of their respective capital). Gulf Investors Gold Holding Company W.L.L. is a beneficial owner as at the date of this Prospectus of 77.5% of the Shares in the Company on behalf of the Consortium. After the Offering, it will beneficially own on behalf of the Consortium 54.25% of the Shares in the Company.

The following table sets out the ownership structure of Gulf Investors Gold Holding Company W.L.L. as at the date of this Prospectus:

**Table A.2: Ownership of Gulf Investors Gold Holding Company W.L.L. as at the date of this Prospectus**

| Shareholders   | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|-----------------------|-----------------------|----------------------|
| Gulf Growth Gold Holding Company W.L.L.                                  | 3,580         | 179,000               | 1,782,822             | 71.60%               |
| Eastgate MENA SPV5 Holding S.P.C.  | 1,136         | 56,800                | 565,722               | 22.72%               |
| Fidelity Invest Owned by The National Investor PJS - One Man Company LLC | 284           | 14,200                | 141,431               | 5.68%                |
| Total  | 5,000         | 250,000               | 2,489,975             | 100%                 |

Source: The Company

The ownership structure of the Company is in compliance with the Foreign Investment Act (the "FIA") and the other relevant regulations pursuant to which the issuance of a foreign investment license by SAGIA is applicable to business entities based in the Kingdom that are wholly or partially owned by persons other than: (i) GCC nationals; and (ii) companies established within the GCC that are wholly-owned by GCC nationals (Article 1 (e) of the FIA and Article 3 of the Economic Agreement Between The GCC States).

The licensing requirements of the FIA are not applicable to business entities that are wholly owned by: (i) GCC nationals; and/or (ii) companies established within the GCC that are wholly-owned by GCC nationals. Moreover, the licensing requirements of the FIA are only applicable to foreign investments made by way of legal ownership of the underlying equity interest, whether directly or indirectly, as evidenced by the relevant constitutional documents.

Accordingly, the licensing requirements of the FIA are not applicable to the Company given that all of the direct and indirect shareholders of record (legal owners) in the Company are either GCC nationals, or are companies that were established within the GCC and whose shareholders consist wholly of GCC nationals pursuant to their respective constitutional documents.

Descriptions of Gulf Investors Gold Holding Company W.L.L.'s shareholders are set out below:

## 1- Gulf Growth Gold Holding Company W.L.L.

### 1.1 Overview of Ownership Structure of Gulf Growth Gold Holding Company W.L.L.

Gulf Growth Gold Holding Company W.L.L. is registered under commercial registration No. 70517-1 dated 3/12/1429H (corresponding to 1/12/2008G). Gulf Growth Gold Holding Company W.L.L.'s head office and registered office is located in Flat 41, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 250,000 (equivalent to SAR 2,489,975) divided into 5,000 shares with a fully paid up nominal value of BHD 50 (equivalent to SAR 498) per share.

As at the date of this Prospectus, Gulf Growth Gold Holding Company W.L.L. operates primarily as a holding company holding 3,580 Shares in Gulf Investors Gold Holding Company W.L.L. (representing 71.60% of its capital). Gulf Growth Gold Holding Company W.L.L. is an SPV used in the legal structure of Investcorp Gulf Opportunity Fund I and Investcorp Islamic Gulf Opportunity Fund I.

Gulf Growth Gold Holding Company W.L.L. is a beneficial owner as at the date of this Prospectus of 55.49% of the Shares in the Company. After the Offering, it will beneficially own 38.84% of the Shares in the Company. 98.64% of the beneficial ownership of the Shares in the Company is held on behalf of Investcorp Gulf Opportunity Fund Company I B.S.C.(c), an SPV used in the legal structure of Investcorp Gulf Opportunity Fund I, and 1.36% of the beneficial ownership of the Shares in the Company is held on behalf of Investcorp GO Company 4 W.L.L., an SPV used in the legal structure of Investcorp Islamic Gulf Opportunity Fund I.

The following table sets out the ownership structure of Gulf Growth Gold Holding Company W.L.L. as at the date of this Prospectus:

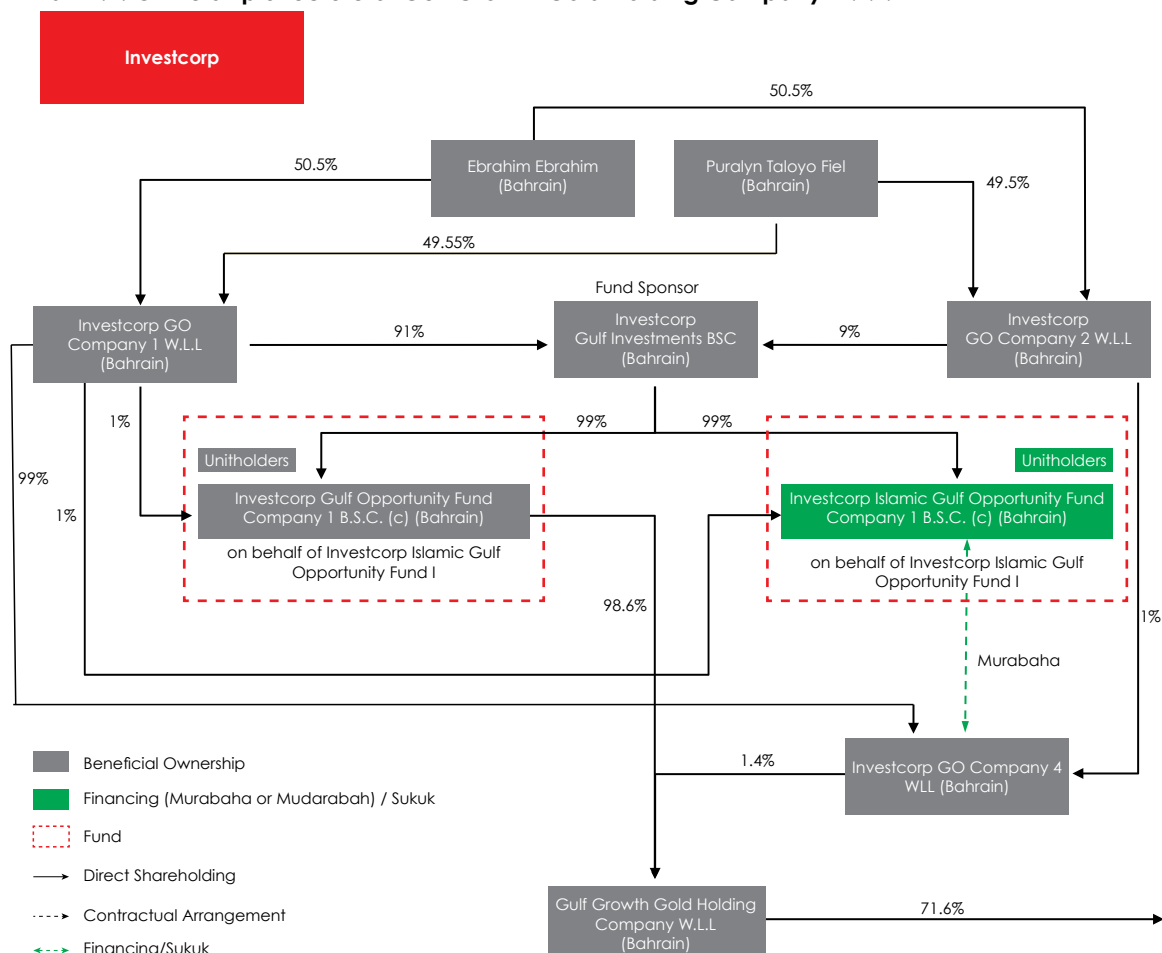
**Table A.3: Ownership structure of Gulf Growth Gold Holding Company W.L.L. as at the date of this Prospectus**

| Shareholder  | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|-----------------------|-----------------------|----------------------|
| Investcorp Gulf Opportunity Fund Company I B.S.C.(c) | 4,932         | 246,000               | 2,450,135             | 98.64%               |
| Investcorp GO Company 4 W.L.L.                       | 68            | 3,400                 | 33,864                | 1.36%                |
| Total  | 5,000         | 250,000               | 2,489,975             | 100%                 |

Source: The Company

The following chart sets out the ownership structure of Gulf Growth Gold Holding Company W.L.L.:

**Exhibit A.1: Ownership Structure of Gulf Growth Gold Holding Company W.L.L.**



Descriptions of Gulf Growth Gold Holding Company W.L.L.'s shareholders are set out below:

### 1.1.1 Investcorp Gulf Opportunity Fund Company I B.S.C.(c)

Investcorp Gulf Opportunity Fund Company I B.S.C.(c) is a closed joint stock company with registration number 67221-1, incorporated in Bahrain on 6/12/2007G (corresponding to 26/11/1428H). Investcorp Gulf Opportunity Fund Company I B.S.C.(c) was formed for the sole purpose of establishing Investcorp Gulf Opportunity Fund I, which is a Bahrain domiciled closed-ended exempt collective investment undertaking registered with the Central Bank of Bahrain. The principal purpose of Investcorp Gulf Opportunity Fund I is to invest within the six Gulf Cooperation Council countries and, on a selective basis, the wider MENA region, including Turkey.

Investcorp Gulf Opportunity Fund Company I B.S.C.(c) does not conduct any activities directly related to Investcorp Gulf Opportunity Fund I or otherwise, and it does not compete with L'azurde Group's business. Investcorp Gulf Opportunity Fund Company I B.S.C.(c) is a 99% owned subsidiary of Investcorp Gulf Investments B.S.C. (c), with the other 1% being owned by Investcorp GO Company I W.L.L.

The following table sets out the shareholding in Investcorp Gulf Opportunity Fund Company I B.S.C.(c) as at the date of this Prospectus:

**Table A.4: Investcorp Gulf Opportunity Fund Company I B.S.C.(c)'s Shareholding Structure as at the date of this Prospectus**

| Shareholder                            | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|--|---------------|-----------------------|-----------------------|----------------------|
| Investcorp Gulf Investments B.S.C.(c). | 99            | 990                   | 9,860                 | 99%                  |
| Investcorp GO Company 1 W.L.L.         | 1             | 10                    | 99.6                  | 1%                   |
| Total                                  | 100           | 1,000                 | 9,959.6               | 100%                 |

Source: The Company

Descriptions of Investcorp Gulf Opportunity Fund Company I B.S.C.(c)'s shareholders are set out below:

#### A) Investcorp Gulf Investments B.S.C.(c)

Investcorp Gulf Investments B.S.C.(c) is registered under commercial registration No. 66923-1 dated 27/11/1428H (corresponding to 7/11/2007G). Investcorp Gulf Investments B.S.C.(c)'s head office and registered office is located in Flat 42, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 250,000 (equivalent to SAR 2,489,975) divided into 25,000 shares with a fully paid up nominal value of BHD 10 (equivalent to SAR 99.6) per share. Investcorp Gulf Investments B.S.C.(c) is a Bahrain shareholding company (closed) that is licenced by the Central Bank of Bahrain and whose sole purpose is to act as a promoter of investment funds.

As at the date of this Prospectus, Investcorp Gulf Investments B.S.C.(c) operates as the fund promoter of Investcorp Gulf Opportunity Fund I, holding 99 Shares in Investcorp Gulf Opportunity Fund Company I B.S.C.(c) (representing 99% of its capital), and the fund promoter of Investcorp Islamic Gulf Opportunity Fund I, holding 99 Shares in Investcorp Islamic Gulf Opportunity Fund Company I B.S.C.(c) (representing 99% of its capital).

The following table sets out the shareholding in Investcorp Gulf Investments B.S.C.(c) as at the date of this Prospectus:

**Table A.5: Investcorp Gulf Investments B.S.C.(c)'s Shareholding Structure as at the date of this Prospectus**

| Shareholder                    | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|--------------------------------|---------------|-----------------------|-----------------------|----------------------|
| Investcorp GO Company 1 W.L.L. | 22,750        | 227,500               | 2,265,877             | 91%                  |
| Investcorp GO Company 2 W.L.L. | 2,250         | 22,500                | 224,098               | 9%                   |
| Total                          | 25,000        | 250,000               | 2,489,975             | 100%                 |

Source: The Company

Descriptions of Investcorp Gulf Investments B.S.C.(c)'s shareholders is set out below:

**i) Investcorp GO Company 1 W.L.L.**

Investcorp GO Company 1 W.L.L. is registered under commercial registration No. 66849-1 dated 18/10/1428H (corresponding to 30/10/2007G). Investcorp GO Company 1 W.L.L.'s head office and registered office is located in Flat 1, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 20,000 (equivalent to SAR 199,198) divided into 400 shares with a fully paid up nominal value of BHD 50 (equivalent to SAR 498) per share.

As at the date of this Prospectus, Investcorp GO Company 1 W.L.L. serves primarily as a holding company, holding in particular shares in Investcorp Gulf Opportunity Fund Company I B.S.C.(c), Investcorp Islamic Gulf Opportunity Fund Company 1 B.S.C.(c), Investcorp Gulf Investments B.S.C. and Investcorp GO Company 4 W.L.L.

The following table sets out the shareholding in Investcorp GO Company 1 W.L.L. as at the date of this Prospectus:

**Table A.6: Investcorp GO Company 1 W.L.L.'s Shareholding Structure as at the date of this Prospectus**

| Shareholder                      | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|----------------------------------|---------------|-----------------------|-----------------------|----------------------|
| Ebrahim Hussain Ebrahim Mohammed | 202           | 10,100                | 100,595               | 50.5%                |
| Puralyn Taloyo Fiel.             | 198           | 9,900                 | 98,603                | 49.5%                |
| Total                            | 400           | 20,000                | 199,198               | 100%                 |

Source: The Company

Descriptions of Investcorp GO Company 1 W.L.L.'s shareholders are set out below:

**Ebrahim Hussain Ebrahim Mohammed**

Mr Ebrahim Hussain Ebrahim Mohammed, a Bahraini national, holds shares of Investcorp GO Company 1 W.L.L. and Investcorp GO Company 2 W.L.L. as nominee for Investcorp Bank BSC pursuant to a nominee arrangement. All voting and management rights with respect to these shares have been delegated to the representatives of Investcorp Management Services Limited acting as fund manager pursuant to a power of attorney. The purpose of the power of attorney is to enable the fund manager to direct the voting of the legal shares in the best interests of Investcorp Gulf Opportunity Fund I and the unitholders.

**Puralyn Taloyo Fiel**

Mrs Puralyn Taloyo Fiel, a Bahraini national, holds shares of Investcorp GO Company 1 W.L.L. and Investcorp GO Company 2 W.L.L. as nominee for Investcorp Bank BSC pursuant to a nominee arrangement. All voting and management rights with respect to these shares have been delegated to the representatives of Investcorp Management Services Limited acting as the fund manager pursuant to a power of attorney. The purpose of the power of attorney is to enable the fund manager to direct the voting of the legal shares in the best interests of Investcorp Gulf Opportunity Fund I and the unitholders.

Under the Bahraini legislative framework, the direct and beneficial shareholders of Investcorp Gulf Opportunity Fund Company I B.S.C.(c) do not have any rights over the assets of Investcorp Gulf Opportunity Fund Company I B.S.C.(c), whether during the life of Investcorp Gulf Opportunity Fund Company I or upon its liquidation (this is achieved by way of a contractual, not structural, arrangement).

**ii) Investcorp GO Company 2 W.L.L.**

Investcorp GO Company 2 W.L.L. is registered under commercial registration No. 66848-1 dated 18/10/1428H (corresponding to 30/10/2007G). Investcorp GO Company 2 W.L.L.'s head office and registered office is located in Flat 11, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 20,000 (equivalent to SAR 199,198) divided into 400 shares with a fully paid up nominal value of BHD 50 (equivalent to SAR 498) per share. Investcorp GO Company 2 W.L.L. is a holding company that was established to be a shareholder in Investcorp Gulf Investments B.S.C.(c). due to the requirement of the Bahrain Commercial Companies Law that a Bahrain shareholding company (closed) have two shareholders.

As at the date of this Prospectus, Investcorp GO Company 2 W.L.L. serves primarily as a holding company, holding shares in Investcorp Gulf Investments B.S.C.(c) and Investcorp GO Company 4 W.L.L.

The following table sets out the shareholding in Investcorp GO Company 2 W.L.L. as at the date of this Prospectus:

**Table A.7: Investcorp GO Company 2 W.L.L.'s Shareholding Structure as at the date of this Prospectus**

| Shareholder                      | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|----------------------------------|---------------|-----------------------|-----------------------|----------------------|
| Ebrahim Hussain Ebrahim Mohammed | 202           | 10,100                | 100,605               | 50.5%                |
| Puralyn Taloyo Fiel.             | 198           | 9,900                 | 98,612                | 49.5%                |
| Total                            | 400           | 20,000                | 199,198               | 100%                 |

Source: The Company

Descriptions of Investcorp GO Company 2 W.L.L.'s shareholders, Ebrahim Hussain Ebrahim Mohammed and Puralyn Taloyo Fiel, are set out above.

#### **b) Investcorp GO Company 1 W.L.L.**

Description of Investcorp GO Company 1 W.L.L. is set out above.

#### **1.1.2 Investcorp GO Company 4 W.L.L.**

Investcorp GO Company 4 W.L.L. is a limited liability company with registration No. 83731 incorporated in Bahrain on 31/12/2012G (corresponding to 17/2/1434H). Investcorp GO Company 4 W.L.L. is a 99% owned subsidiary of Investcorp GO Company 1 W.L.L., with the other 1% being owned by Investcorp GO Company 2 W.L.L. Investcorp GO Company 4 W.L.L.'s head office and registered office is located in Flat 42, Building 499, Road 1706, Diplomatic Area 317, Kingdom of Bahrain. The current share capital of the company is BHD 20,000 (equivalent to SAR 199,198) divided into 400 shares with a fully paid up nominal value of BHD 50 (equivalent to SAR 498) per share.

Investcorp GO Company 4 W.L.L. is the legal owner of the 1.36% ownership interest in Gulf Growth Holding Company W.L.L. Investcorp GO Company 4 W.L.L. is an SPV used in the legal structure of Investcorp Islamic Gulf Opportunity Fund I, a closed-ended investment Islamic fund established according to the Collective Investment Undertakings Module of the Central Bank of Bahrain Rulebook, Volume 6 (which module has been superseded by CIU Regulations) and registered with by the Central Bank of Bahrain. Investcorp GO Company 4 W.L.L. has only an administrative function and does not get any economic benefits in connection with the Shares in the Company. Moreover, the direct and beneficial shareholders of GO Company 4 W.L.L. do not have any rights over the assets of GO Company 4 W.L.L., whether during the life of Investcorp Islamic Gulf Opportunity Fund I or upon its liquidation (this is achieved by way of a contractual, not structural, arrangement).

An investment product has been structured for Investcorp Islamic Gulf Opportunity Fund I, consisting of a Murabaha facility expiring on 14 January 2029G (corresponding to 29/8/1450H) between Investcorp GO Company 4 W.L.L. and Investcorp Islamic Gulf Opportunity Fund Company I B.S.C.(c), which was formed for the sole purpose of establishing Investcorp Islamic Gulf Opportunity Fund. Investcorp GO Company 4 W.L.L. has fully used the proceeds from the Murabaha facility to acquire the 1.36% stake in Gulf Growth Holding Company W.L.L.

Through the legal structure of Investcorp Islamic Gulf Opportunity Fund I, which does not have any direct or beneficial ownership of shares in the Company, its unitholders have no beneficial ownership of Shares in the Company, as such fund only provides Murabaha financing to Investcorp GO Company 4 W.L.L. Such financing is based on the beneficial ownership of Shares in the Company, but is not backed by such beneficial ownership of Shares in the Company. In case of a payment default by Investcorp GO Company 4 W.L.L. pursuant to the Murabaha financing, Investcorp Islamic Gulf Opportunity Fund I will only have a monetary claim against Investcorp GO Company 4 W.L.L. and it will have no recourse to Investcorp GO Company 4 W.L.L.'s beneficial ownership of Shares in the Company. Therefore, there is no unitholder in Investcorp Islamic Gulf Opportunity Fund I beneficially owning 5% or more of the Shares in the Company. Even if through the legal structure of Investcorp Islamic Gulf Opportunity Fund I the unitholders in such fund had the beneficial ownership of Shares in the Company (which, for clarity, is not the case), no such unitholder would beneficially own 5% or more of the Shares in the Company. In addition, the unitholders in Investcorp Islamic Gulf Opportunity Fund I do not enjoy any of the rights set out in the Companies' Regulations, the CML or its implementing rules issued thereunder or the Company's By-laws, including right to vote or any rights conferred by the Shares to the Shareholders. Moreover, pursuant to the terms and conditions of Investcorp Islamic Gulf Opportunity Fund I, its unitholders have no contractual right to receive the Shares in the Company.

The board of directors of Investcorp Islamic Gulf Opportunity Fund I is comprised of Ayman Husain Mansoor AlArrayedh, Mufeed Abdulnabi Abdali Rajab and Syed Abbas Marghoob Rizvi, of which none owns any legal or beneficial ownership interest in the Company. The exit from the underlying investments by Investcorp Islamic Gulf Opportunity Fund I is through various mediums including initial public offerings, trade sales to local, regional or foreign investors and sales to other private equity investors. Investcorp Islamic Gulf Opportunity Fund I was established on 24/1/2008G (corresponding to 15/1/1429H). The duration of the Investcorp Islamic Gulf Opportunity Fund I is ten Gregorian years subject to the fund manager's right to extend the term for up to two additional one-year periods to permit an orderly dissolution of the Investcorp Islamic Gulf Opportunity Fund I.

The following table sets out the ownership structure of Investcorp GO Company 4 W.L.L. as at the date of this Prospectus:

**Table A.8: Ownership structure of Investcorp GO Company 4 W.L.L. as at the date of this Prospectus**

| Shareholder                    | No. of Shares | Value of Shares (BHD) | Value of Shares (SAR) | Ownership Percentage |
|--------------------------------|---------------|-----------------------|-----------------------|----------------------|
| Investcorp GO Company 1 W.L.L. | 396           | 19,800                | 197,206               | 99%                  |
| Investcorp GO Company 2 W.L.L. | 4             | 200                   | 1,992                 | 1%                   |
| Total                          | 400           | 20,000                | 199,198               | 100%                 |

Source: The Company

Descriptions of Investcorp GO Company 1 W.L.L. and Investcorp GO Company 2 W.L.L. are set out above. Both companies are beneficially owned by Mr Ebrahim Hussain Ebrahim Mohammed and Mrs Puralyn Taloyo Fiel, who have delegated all voting and management rights with respect to their shares in Investcorp GO Company 1 W.L.L. and Investcorp GO Company 2 W.L.L. to the representatives of Investcorp Management Services Limited acting as fund manager pursuant to a power of attorney. The purpose of the power of attorney is to enable the fund manager to direct the voting of the legal shares in the best interests of Investcorp Gulf Opportunity Fund I, Investcorp Islamic Gulf Opportunity Fund I and their unitholders. The direct and beneficial shareholders of Investcorp GO Company 4 W.L.L. do not have any rights over the assets of Investcorp GO Company 4 W.L.L., whether during the life of Investcorp Islamic Gulf Opportunity Fund I or upon its liquidation (this is achieved by way of a contractual, not structural, arrangement). After the Offering, Investcorp GO Company 4 W.L.L. will have a beneficial ownership representing 0.0075% of the Company's share capital.

## 1.2 Overview of Investcorp Gulf Opportunity Fund

Investcorp Gulf Opportunity Fund I is a closed-ended exempt investment fund established according to the Collective Investment Undertakings Module of the Central Bank of Bahrain Rulebook, Volume 6 (which module has been superseded by the Collective Investment Undertakings Regulations of the Central Bank of Bahrain Rulebook, Volume 7 (the "CIU Regulations")), and is registered with the Central Bank of Bahrain. Investcorp Gulf Opportunity Fund I can be described as a joint investment program that aims to allow its investors an opportunity to collectively partake in Investcorp Gulf Opportunity Fund I's profits. The unitholders of Investcorp Gulf Opportunity Fund I do not have any management control over the decisions of Investcorp Gulf Opportunity Fund I. The fund manager is responsible for making all investment decisions in connection with Investcorp Gulf Opportunity Fund I's investments, and the fund administrator and the custodian are responsible for undertaking all administrative and custodial actions in connection with Investcorp Gulf Opportunity Fund I, whereas the rights of unitholders in Investcorp Gulf Opportunity Fund I are limited to the right to receive proceeds as described in the private placement memorandum prepared in relation to Investcorp Gulf Opportunity Fund I and other limited rights that are described in the instrument pursuant to which Investcorp Gulf Opportunity Fund I was created. While the unitholders in Investcorp Gulf Opportunity Fund I are considered beneficial owners of all the assets of which Investcorp Gulf Opportunity Fund Company I B.S.C.(c) is the legal owner on behalf of Investcorp Gulf Opportunity Fund I, including any equity investments made by Investcorp Gulf Opportunity Fund Company I B.S.C.(c) on behalf of Investcorp Gulf Opportunity Fund I (such as Investcorp Gulf Opportunity Fund Company I B.S.C.(c)'s stake in Gulf Growth Gold Holding Company W.L.L.), the unitholders do not enjoy any of the rights set out in the Companies' Regulations, the CML or its implementing rules issued thereunder or the Company's By-laws including right to vote or any rights conferred by the Shares to the Shareholders. Moreover, pursuant to the terms and conditions of Investcorp Gulf Opportunity Fund I, its unitholders have no contractual right to receive the Shares in the Company.

Pursuant to the CIU Regulations, Bahrain domiciled CIUs/funds may be constituted either as common CIUs established under the law of contract, trusts established under the Financial Trusts Law, or Corporates established under the Companies Law. Each Bahrain domiciled CIU/fund must have its separate legal vehicle.



Investcorp Gulf Opportunity Fund I has been structured as an exempt fund pursuant to the CIU Regulations as a contractual arrangement between Investcorp Gulf Opportunity Fund Company I B.S.C.(c) and the investors. This is the most common form of fund structure in Bahrain and would fall under the category of common CIUs as described above. Investcorp Gulf Opportunity Fund I does not have a separate legal status and the investors have subscribed to the units in Investcorp Gulf Opportunity Fund I and not to the shares in Investcorp Gulf Opportunity Fund Company I B.S.C.(c). As Investcorp Gulf Opportunity Fund I does not have separate legal status, any investments and contractual arrangements are made by Investcorp Gulf Opportunity Fund Company I B.S.C.(c) acting on behalf of Investcorp Gulf Opportunity Fund I and Investcorp Gulf Opportunity Fund Company I B.S.C.(c) is the legal owner of the 98.64% ownership interest in Gulf Growth Holding Company W.L.L. However, under the Bahraini legislative framework applicable to Investcorp Gulf Opportunity Fund I, the direct and beneficial shareholders of Investcorp Gulf Opportunity Fund Company I B.S.C.(c) do not have any rights over the assets or the management of Investcorp Gulf Opportunity Fund I, whether during the life of Investcorp Gulf Opportunity Fund I or upon its liquidation. As per the CIU Regulations, the assets, financial instruments and investments of Investcorp Gulf Opportunity Fund I are held by the custodian for and on behalf of Investcorp Gulf Opportunity Fund I (this is achieved by way of a contractual, not structural, arrangement). As a result, despite being the legal owner, Investcorp Gulf Opportunity Fund Company I B.S.C.(c) does not beneficially own any assets on its own (or its shareholders) behalf. All payments and receipts of finances pertaining to Investcorp Gulf Opportunity Fund I are made by the custodian, who will not release any funds to the shareholders of Investcorp Gulf Opportunity Fund Company I B.S.C.(c). Upon liquidation, in accordance with the above, the remaining assets of Investcorp Gulf Opportunity Fund I will be distributed to the unitholders of Investcorp Gulf Opportunity Fund I. The liquidation of Investcorp Gulf Opportunity Fund I also requires a number of approvals from the unitholders as well as the Central Bank of Bahrain.

The board of directors of Investcorp Gulf Opportunity Fund Company I B.S.C.(c) is responsible for the overall management and supervision of Investcorp Gulf Opportunity Fund I. Subject to the prior approval of the Central Bank of Bahrain, the directors of Investcorp Gulf Opportunity Fund Company I B.S.C.(c) are nominated and appointed by Investcorp Gulf Investments B.S.C. (c), who must immediately notify the Central Bank of Bahrain when a board member submits resignation from his position or if his membership is terminated, together with an explanation as to the reasons why, and removal of a board member of Investcorp Gulf Opportunity Fund Company I B.S.C.(c) would need a shareholders resolution passed at the shareholders meeting in accordance with the Bahrain Commercial Companies Law and the relevant articles of association. The Central Bank of Bahrain and the Ministry of Industry and Commerce must be invited to all shareholders meetings.

The CIU Regulations require that Investcorp Gulf Investments B.S.C. (c) must hold an appropriate license issued by the Central Bank of Bahrain or by a financial services regulator of an overseas jurisdiction. Investcorp Gulf Investments B.S.C. (c) is duly licenced as an investment business firm – category 2 by the Central Bank of Bahrain and is authorised to operate a collective investment undertaking.

Investcorp Bank B.S.C. provides administrator, custodian and registrar services to Investcorp Gulf Opportunity Fund I and is duly licenced to do so. Investcorp Gulf Opportunity Fund I is managed by Investcorp Management Services Limited.

The following summarises the key information related to Investcorp Gulf Opportunity Fund I:

- **Date of Registration and Term:** Investcorp Gulf Opportunity Fund I was registered on 22/11/2007G (corresponding to 10/10/1428H) by the Central Bank of Bahrain. The share purchase agreement for the purchase by Investcorp Gulf Opportunity Fund Company I B.S.C.(c) on behalf of Investcorp Gulf Opportunity Fund I of the shares in the Company was executed on 14/1/2009G (corresponding to 17/01/2009H). The duration of Investcorp Gulf Opportunity Fund I is ten Gregorian years subject to the fund manager's right to extend the term for up to two additional one year periods to permit an orderly dissolution of Investcorp Gulf Opportunity Fund I.
- **Investment Objective:** Investcorp Gulf Opportunity Fund I's investment objective is to generate medium to long-term capital appreciation through equity and equity related investments in "Greenfield" opportunities and acquisition of majority or possibly minority interests in well established businesses within the six GCC countries. Investcorp Gulf Opportunity Fund I's territory also includes the wider MENA region, including Turkey. Investcorp Gulf Opportunity Fund I may also pursue private investment in public equity opportunities in the GCC and MENA regions as well as the acquisition of small international firms with significant growth potential in the Arabian Gulf.
- **Exit Strategy:** Investcorp Gulf Opportunity Fund I's objective is to exit investments through various mediums including initial public offerings, trade sales to local, regional or foreign investors and sales to other private equity investors before the expiration of its term (including the two-year extension period described above). There is no default mechanism in place as at the date of this Prospectus for the liquidation of Investcorp Gulf Opportunity Fund I at the expiration of its term.



- **Board of Directors:** The board of directors of Investcorp Gulf Opportunity Fund Company I B.S.C.(c) is comprised of three persons (Ayman Husain Mansoor AlArrayedh, Mufeed Abdulnabi Abdali Rajab and Syed Abbas Marghoob Rizvi), of which none owns any direct or beneficial interest in the Company. Moreover, none of the directors have any legal or beneficial ownership in the Company.

Investcorp Gulf Opportunity Fund Company I B.S.C.(c) maintains a diversified base of investors who have subscribed for units in Investcorp Gulf Opportunity Fund I. Through the legal structure Investcorp Gulf Opportunity Fund I, its unitholders are deemed, according to applicable Saudi law, to be the beneficial owners of 54.65% of the Shares in the Company as at the date of this Prospectus. Qatar Investment Authority, a Qatari sovereign wealth fund, owns 11.3% of the units of Investcorp Gulf Opportunity Fund I. Therefore, pursuant to applicable Saudi law, Qatar Investment Authority is deemed to beneficially own 6.25% of the Shares in the Company and will be deemed to beneficially own 4.38% after the Offering. There are no other unitholders in Investcorp Gulf Opportunity Fund I beneficially owning 5% or more of the Shares in the Company.

## 2- Eastgate MENA SPV5 Holding S.P.C.

Eastgate MENA SPV5 Holding S.P.C. is a single person company incorporated under the laws of Bahrain on 03/12/2008G (corresponding to 5/12/1429H) with commercial registration number 70545-01. Eastgate MENA SPV5 Holding S.P.C.'s head office and registered office is at Unit No. 2166, Building No. 2648, Road No. 5720, Block No. 257, Amwaj Island, Kingdom of Bahrain. The current capital of Eastgate MENA SPV5 Holding S.P.C. is USD 670,000 (equivalent to SAR 2,512,500). The principal activity of Eastgate MENA SPV5 Holding S.P.C. is to act as a holding company for a group of companies.

Eastgate MENA SPV5 Holding S.P.C. is the legal owner of the 22.72% ownership interest in Gulf Investors Gold Holding Company's capital and it therefore owns 17.61% beneficial ownership interest in the Shares in the Company. Eastgate MENA SPV5 Holding S.P.C. is an SPV used in the legal structure of Oryx MENA Direct Equity Fund, a closed-ended investment fund established according to the Collective Investment Undertakings Module of the Central Bank of Bahrain Rulebook, Volume 6 (which module has been superseded by CIU Regulations) and registered with by the Central Bank of Bahrain. Eastgate MENA SPV5 Holding S.P.C. has only an administrative function and does not get any economic benefits in connection with the Shares in the Company.

The following table sets out the ownership structure of Eastgate MENA SPV5 Holding S.P.C. as at the date of this Prospectus:

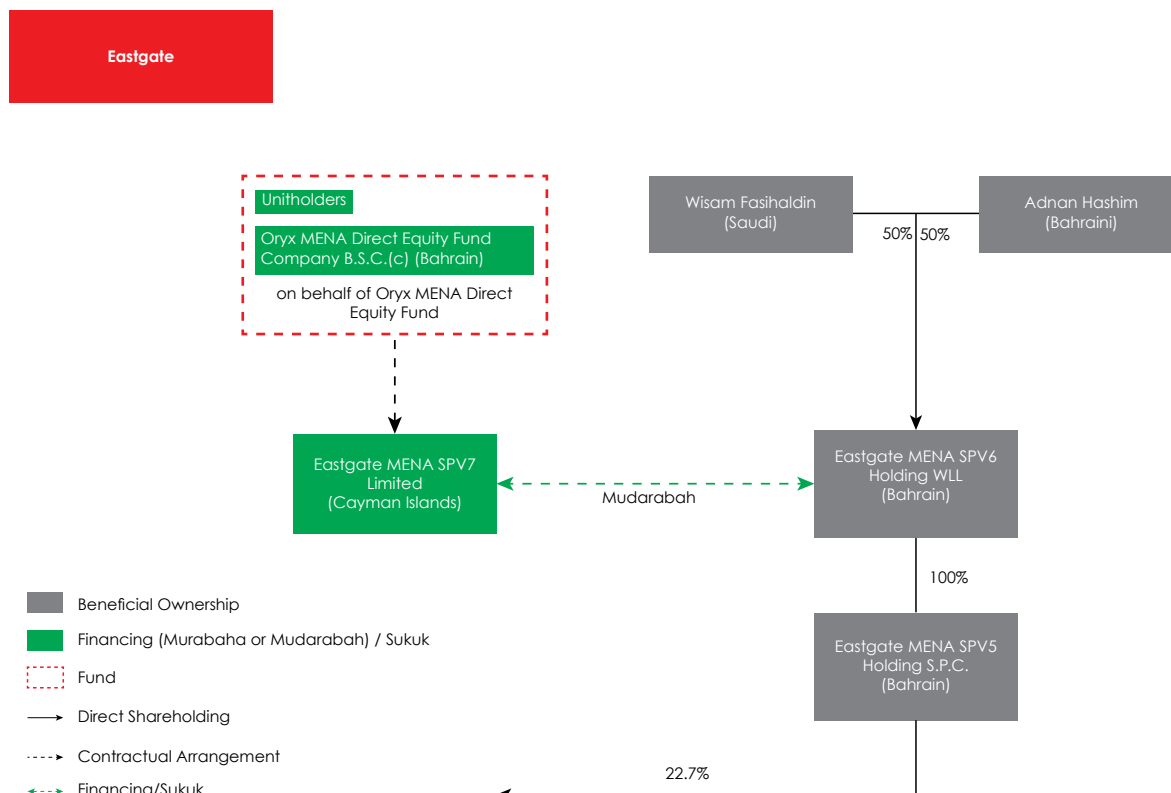
**Table A.9: Ownership Structure of Eastgate MENA SPV5 Holding S.P.C. as at the date of this Prospectus**

| Shareholder                       | No. of Shares | Value of Shares (USD) | Value of Shares (SAR) | Ownership Percentage |
|-----------------------------------|---------------|-----------------------|-----------------------|----------------------|
| Eastgate MENA SPV6 Holding W.L.L. | 670           | 670,000               | 2,512,500             | 100%                 |

Source: The Company

The following chart sets out the ownership structure of Eastgate MENA SPV5 Holding S.P.C. as at the date of this Prospectus:

**Exhibit A.2: Ownership Structure of Eastgate MENA SPV5 Holding S.P.C. as at the date of this Prospectus**



Eastgate MENA SPV6 Holding W.L.L. is a company incorporated under the laws of Bahrain on 24/12/2008G (corresponding to 26/12/1429H) with commercial registration number 70667-01. Eastgate MENA SPV6 Holding W.L.L.'s head office and registered office is at Unit No. 2166, Building No. 2648, Road No. 5720, Block No. 257, Amwaj Island, Kingdom of Bahrain. The current capital of Eastgate MENA SPV6 Holding W.L.L. is USD 670,000 (equivalent to SAR 2,512,500). The principal activity of Eastgate MENA SPV6 Holding W.L.L. is to act as a holding company for a group of companies. MENA SPV6 Holding W.L.L. has only an administrative function and does not get any economic benefits in connection with the Shares in the Company. Moreover, the direct and beneficial shareholders of MENA SPV6 Holding W.L.L. do not have any rights over the assets of MENA SPV6 Holding W.L.L., whether during the life of Oryx MENA Direct Equity Fund or upon its liquidation (this is achieved by way of a contractual, not structural, arrangement).

The following table sets out the shareholding in Eastgate MENA SPV6 Holding W.L.L. as at the date of this Prospectus:

**Table A.10: Eastgate MENA SPV6 Holding W.L.L.'s Shareholding Structure as at the date of this Prospectus**

| Shareholder       | No. of Shares | Value of Shares (USD) | Value of Shares (SAR) | Ownership Percentage |
|-------------------|---------------|-----------------------|-----------------------|----------------------|
| Adnan Hashim      | 335           | 335,000               | 1,256,250             | 50.0%                |
| Wisam Fasihaldin. | 335           | 335,000               | 1,256,250             | 50.0%                |
| Total             | 670           | 670,000               | 2,512,500             | 100%                 |

Source: The Company

Descriptions of Eastgate MENA SPV6 Holding W.L.L.'s shareholders are set out below:

**Adnan Hashim**

Mr Adnan Hashim, a Bahraini national, holds shares of EM SPV 6 as nominee for EM SPV 7 pursuant to a nominee arrangement. All voting and management rights with respect to these shares have been delegated to EM SPV 7 to direct the voting of the legal shares in the best interests of Oryx MENA Direct Equity Fund and the unitholders.

## Wisam Fasihaldin

Mr Wisam Fasihaldin, a Saudi national, holds shares of EM SPV 6 as nominee for EM SPV 7 pursuant to a nominee arrangement. All voting and management rights with respect to these shares have been delegated to EM SPV 7 to direct the voting of the legal shares in the best interests of Oryx MENA Direct Equity Fund and the unitholders.

Under the Bahraini legislative framework, the direct and beneficial shareholders of Eastgate MENA SPV6 Holding W.L.L. do not have any rights over the assets of Eastgate MENA SPV6 Holding W.L.L., whether during the life of Oryx MENA Direct Equity Fund or upon its liquidation (this is achieved by way of a contractual, not structural, arrangement).

An investment product has been structured for Oryx MENA Direct Equity Fund, consisting of a Mudarabah profit-sharing arrangement between Eastgate MENA SPV6 Holding W.L.L. (acting as Mudarib) and Eastgate MENA SPV7 Limited (acting as Rabb-ul-Mall) expiring on 14 November 2015G (corresponding to 2/2/1437H), with the option of two one-year extensions (which extension option was exercised by Eastgate MENA SPV6 Holding W.L.L. until 14 November 2016G (corresponding to 21/1/1438H)) or any other date agreed by the parties, for fully financing the investment by Eastgate MENA SPV6 Holding W.L.L. in Eastgate MENA SPV5 Holding S.P.C. Eastgate MENA SPV6 W.L.L. Holding is in turn ultimately beneficially owned by Oryx MENA Direct Equity Fund Company B.S.C.(c), a closed joint stock company incorporated under the laws of Bahrain and regulated by the Central Bank of Bahrain, which was formed for the sole purpose of establishing Oryx MENA Direct Equity Fund, a Shari'ah compliant fund managed by NCB Capital Company. Eastgate Capital Group Limited acts as the Investment Manager.

Through the legal structure of Oryx MENA Direct Equity Fund, which does not have any direct or beneficial ownership of shares in the Company, its unitholders have no beneficial ownership of Shares in the Company, as such fund only provides indirectly Mudarabah financing to Eastgate MENA SPV6 Holding W.L.L. Such financing is based on the beneficial ownership of Shares in the Company, but is not backed by such beneficial ownership of Shares in the Company. In case of a payment default by Eastgate MENA SPV6 Holding W.L.L. pursuant to the Mudarabah financing, Oryx MENA Direct Equity Fund will only have a monetary claim against Eastgate MENA SPV6 Holding W.L.L. and it will have no recourse to Eastgate MENA SPV6 Holding W.L.L.'s beneficial ownership of Shares in the Company. Therefore, there is no unitholder in Oryx MENA Direct Equity Fund beneficially owning 5% or more of the Shares in the Company. Even if through the legal structure of Oryx MENA Direct Equity Fund the unitholders in such fund had the beneficial ownership of Shares in the Company (which, for clarity, is not the case), no such unitholder would beneficially own 5% or more of the Shares in the Company. In addition, Oryx MENA Direct Equity Fund, its unitholders, administrator, manager, custodian or Eastgate MENA SPV7 Limited do not enjoy any of the rights set out in the Companies' Regulations, the CML or its implementing rules issued thereunder or the Company's By-laws, including right to vote or any rights conferred by the Shares to the Shareholders. Moreover, pursuant to the terms and conditions of Oryx MENA Direct Equity Fund, its unitholders have no contractual right to receive the Shares in the Company.

The board of directors of Oryx MENA Direct Equity Fund is comprised of Mohammed Al Ali, Lawrence Currie and Abdulmohsen Almuhaideb, of which none owns any legal or beneficial ownership interest in the Company. The exit from the underlying investments by Oryx MENA Direct Equity Fund is through various mediums including initial public offerings, trade sales to local, regional or foreign investors and sales to other private equity investors. For each of the portfolio investments, the medium of exit would vary depending upon the nature/size of the investment, macro-economic conditions, controlling rights and the maturity stage (growth potential) of the portfolio company. The Oryx Fund was established on 30/12/2009G (corresponding to 13/1/1431H) for a period of eight years with an option to extend for two more years.

After the Offering, Eastgate MENA SPV5 Holding S.P.C. will beneficially own 5,294,708 shares representing 12.31 % of the Company's share capital.

### 3- Fidelity Invest Owned by The National Investor PJS - One Man Company LLC

Fidelity Invest Owned by The National Investor PJS - One Man Company LLC is a limited liability company established company incorporated under the laws of the UAE with commercial registration No. 1071798 on 25/04/2005 (corresponding to 16/3/1426). Fidelity Invest Owned by The National Investor PJS - One Man Company LLC's head office and registered office is at P.O. Box 47435, Abu Dhabi, UAE. The current capital of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC is AED 150,000 (equivalent to SAR 153,185), and its principal activities are to invest in commercial, industrial and real estate projects, and to manage such projects.

Fidelity Invest Owned by The National Investor PJS - One Man Company LLC is the legal owner of the 5.7% ownership interest in Gulf Investors Gold Holding Company's capital and it therefore owns 4.4% beneficial ownership interest in the Shares in the Company. Fidelity Invest Owned by The National Investor PJS - One Man Company LLC is an SPV used in the legal structure of TNI Growth Capital Fund, L.P. ("TNI Growth Capital Fund"), a closed-ended investment fund incorporated as a Cayman Islands exempted limited partnership, sponsored and managed by The National Investor Pvt. JSC. Fidelity Invest Owned by The National Investor PJS - One Man Company LLC has an administrative function only and does not get any economic benefits in connection with the Shares in the Company. Moreover, the direct and beneficial shareholders of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC do not have any rights over the assets of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC, whether during the life of TNI Growth Capital Fund or upon its liquidation (this is achieved by way of a contractual, not structural, arrangement).

The following table sets out the ownership structure of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC as at the date of this Prospectus:

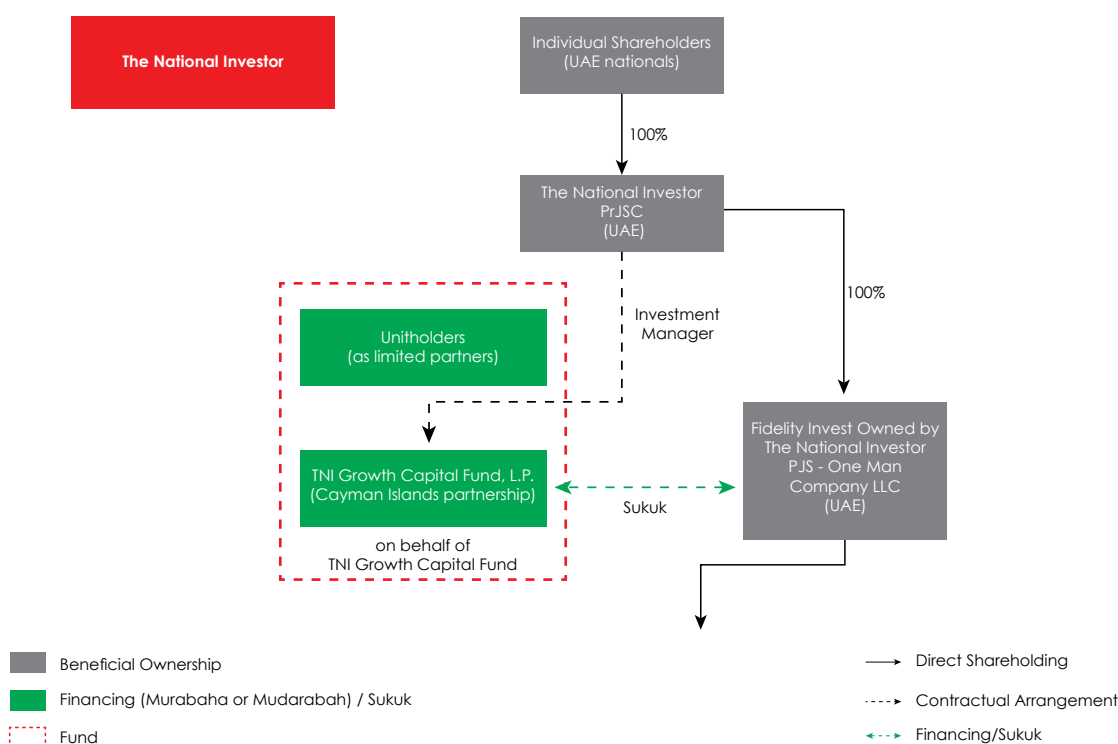
**Table A.11: Ownership Structure of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC as at the date of this Prospectus**

| Shareholder                     | No. of Shares | Value of Shares (AED) | Value of Shares (SAR) | Ownership Percentage |
|---------------------------------|---------------|-----------------------|-----------------------|----------------------|
| The National Investor Pvt. JSC. | 100           | 150,000               | 153,185               | 100.0%               |
| Total                           | 100           | 150,000               | 153,185               | 100.0%               |

Source: The Company

The following chart sets out the ownership structure of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC as at the date of this Prospectus:

**Exhibit A.3: Ownership Structure of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC as at the date of this Prospectus**



The National Investor Pvt. JSC is a private joint-stock company established in 1995G (corresponding to 1415H) and incorporated in Abu Dhabi, UAE under trade license number CN1002081. The National Investor Pvt. JSC is licenced by the Central Bank of the UAE to conduct financial investment business as an investment company in accordance with the Central Bank Board of Directors' Resolution No. 164/8/94 dated 18/4/1995G (corresponding to 18/11/1415H). The National Investor Pvt. JSC provides a range of investment management and advisory services to a substantial client base that includes listed and unlisted companies, financial and government institutions, and high net worth individuals.

The National Investor Pvt. JSC is in turn fully owned by UAE nationals. None of the shareholders of The National Investor Pvt. JSC beneficially owns 5% or more of the Shares in the Company and their role is limited to being shareholders in The National Investor Pvt. JSC.

Under the Bahraini legislative framework, the direct and beneficial shareholders of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC do not have any rights over the assets of Fidelity Invest Owned by The National Investor PJS - One Man Company LLC, whether during the life of TNI Growth Capital Fund or upon its liquidation (this is achieved by way of a contractual, not structural, arrangement).

An investment product has been structured for the TNI Growth Capital Fund, consisting of a non-negotiable Sukuk issued by Fidelity Invest Owned by The National Investor PJS - One Man Company LLC and fully subscribed to by the TNI Growth Capital Fund. The TNI Growth Capital Fund has been established to pursue private equity investments primarily in late stage/pre IPO companies with strong growth prospects located throughout the GCC, Egypt, Pakistan, India, Jordan and Lebanon.

Pursuant to the Sukuk, Fidelity Invest Owned by The National Investor PJS - One Man Company LLC holds the shares in the Gulf Investors Gold Holding Company W.L.L representing 5.7% of its capital upon trust solely for the benefit of TNI Growth Capital Fund, acting only upon the instructions of TNI Growth Capital Fund with respect to such shares. The TNI Growth Capital Fund manager is the sole representative of the TNI Growth Capital Fund's economic interests in such shares, whereas the rights of unitholders in TNI Growth Capital Fund are limited to the right to receive profits realised by the TNI Growth Capital Fund through its investment in such shares. Through the legal structure of the TNI Growth Capital Fund, which does not have any legal or beneficial ownership of shares in the Company, its unitholders have no beneficial ownership of Shares in the Company, as such fund only provides financing to Fidelity Invest Owned by The National Investor PJS - One Man Company LLC through the Sukuk issued by Fidelity

Invest Owned by The National Investor PJS - One Man Company LLC and fully subscribed to by the fund company. Such financing is based on the beneficial ownership of Shares in the Company, but is not backed by such beneficial ownership of Shares in the Company. In case of a payment default by Fidelity Invest Owned by The National Investor PJS - One Man Company LLC pursuant to the Sukuk, the TNI Growth Capital Fund will only have a contractual monetary claim against Fidelity Invest Owned by The National Investor PJS - One Man Company LLC and it will have no recourse to Fidelity Invest Owned by The National Investor PJS - One Man Company LLC's beneficial ownership of Shares in the Company. Therefore, there is no unitholder in TNI Growth Capital Fund beneficially owning 5% or more of the Shares in the Company. Even if through the legal structure of TNI Growth Capital Fund the unitholders in such fund had the beneficial ownership of Shares in the Company (which, for clarity, is not the case), no such unitholder would beneficially own 5% or more of the Shares in the Company. In addition, the TNI Growth Capital Fund, its unitholders, administrator, manager or custodian do not enjoy any of the rights set out in the Companies' Regulations, the CML or its implementing rules issued thereunder, or the Company's By-laws, including the right to vote or any rights conferred by the Shares to the Shareholders. Moreover, pursuant to the terms and conditions of the TNI Growth Capital Fund, its unitholders have no contractual right to receive the Shares in the Company.

The TNI Growth Capital Fund does not have a board of directors. The board of directors of The National Investor Pvt. JSC is comprised of Abdullah M. Mazrui/ Chairman, Mohammed Abdulla Alqubaisi/ Vice Chairman, Mohamed Rashed Al Nasser/ Member, Mohamad Fadhel Al Hamli/ Member, Fatima Obeid Al Jaber/ Member, Saeed Al Masoud / Member, Yusuf Alami / Member and Abubaker Seddique Al Khoori/ Member, of which none owns any legal or beneficial ownership interest in the Company. The exit from the underlying investments by TNI Growth Capital Fund is through initial public offerings, trade sales to local, regional or foreign investors and sales to other private equity investors. The TNI Growth Capital Fund was established on 30/06/2006G (final closing on 31/12/2007G) (corresponding to 4/6/1427H and 21/12/1428H, respectively). The duration of the TNI Growth Capital Fund is five years from the final closing date, with an option to extend for two one year terms at the discretion of the TNI Growth Capital Fund manager, and a further three years upon consent of the limited partners.

After the Offering, Fidelity Invest Owned by The National Investor PJS - One Man Company LLC will beneficially own 1,323,677 shares representing 3.08% of the Company's share capital.

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