

**ALKHABEER CAPITAL COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S
REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 December 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AlKhabeer Capital Company (A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of AlKhabeer Capital Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the provisions of Companies' Law and the Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AlKhabeer Capital Company (A Saudi Closed Joint Stock Company) (continued)

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

for Ernst & Young Professional Services



Ahmed Ibrahim Reda
Certified Public Accountant
License No. 356

Jeddah 28 March 2024
18 Ramadan 1445H



ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

		2023 SR '000	2022 SR '000
	Notes		
ASSETS			
CURRENT ASSETS			
Cash at banks		30,056	26,823
Murabaha placements	5	2,558	3,619
Accounts receivable, prepayments and other receivables	6	6,780	6,439
Due from related parties	7	250,982	218,546
Investments at fair value through profit or loss ("FVTPL")	8	150,120	300,128
TOTAL CURRENT ASSETS		440,496	555,555
NON-CURRENT ASSETS			
Investments at fair value through profit or loss ("FVTPL")	8	1,330,644	1,139,145
Murabaha placements	5	-	100
Right of use assets	9	3,884	4,660
Investment property	28	147,538	147,538
Property and equipment	10	44,067	46,479
TOTAL NON-CURRENT ASSETS		1,526,133	1,337,922
TOTAL ASSETS		1,966,629	1,893,477
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payables, accrued and other liabilities	11	139,609	187,096
Murabaha contracts	12	211,479	231,368
Sharia compliant financing	13	37,604	13,696
Lease liability	9	825	787
TOTAL CURRENT LIABILITIES		389,517	432,947
NON-CURRENT LIABILITIES			
Accounts payables, accrued and other liabilities	11	61,720	63,925
Murabaha contracts	12	122,800	109,900
Sharia compliant financing	13	271,225	223,704
Employees' benefits liabilities	14	21,330	20,184
Lease liability	9	3,725	4,550
TOTAL NON-CURRENT LIABILITIES		480,800	422,263
TOTAL LIABILITIES		870,317	855,210
SHAREHOLDERS' EQUITY			
Share capital	17	894,523	894,523
Statutory reserve	18	60,359	50,073
Retained earnings		141,740	93,893
Actuarial losses, net	14	(310)	(222)
TOTAL SHAREHOLDERS' EQUITY		1,096,312	1,038,267
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,966,629	1,893,477

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 31 December 2023

		2023 SR '000	2022 SR '000
	Notes		
INCOME			
Income from investments at fair value through profit or loss, net	8	203,228	169,314
Fee income	19	76,601	86,585
Dividend income		9,207	762
Income from Murabaha placements		44	5,395
TOTAL OPERATING INCOME		289,080	262,056
OPERATING EXPENSES			
Selling and marketing	20	(9,966)	(9,646)
General and administrative	21	(126,467)	(117,988)
TOTAL OPERATING EXPENSES		(136,433)	(127,634)
NET OPERATING INCOME		152,647	134,422
Murabaha and financing expenses	22	(45,426)	(40,112)
Finance cost on leased liabilities	9	(213)	(249)
Other income		1,487	1,350
PROFIT BEFORE ZAKAT		108,495	95,411
Zakat	15	(5,636)	(4,020)
PROFIT FOR THE YEAR		102,859	91,391
OTHER COMPREHENSIVE (LOSS)/INCOME			
<i>Items that will not be reclassified to the profit or loss</i>			
(Loss)/gain on re-measurement of employees' benefits liabilities	14	(88)	605
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		102,771	91,996
BASIC AND DILUTED EARNINGS PER SHARE			
Weighted number of shares (in thousands)	17	89,452	89,452
Attributable to profit after zakat (in SR)	29	1.15	1.02

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2023

	<i>Share capital SR '000</i>	<i>Statutory reserve SR '000</i>	<i>Retained earnings SR '000</i>	<i>Actuarial (loss)/gain, net SR '000</i>	<i>Total SR '000</i>
Balance at 1 January 2022	894,523	40,934	48,241	(827)	982,871
Profit for the year	-	-	91,391	-	91,391
Other comprehensive income (note 14)	-	-	-	605	605
Total comprehensive income			91,391	605	91,996
Transfer to statutory reserve (note 18)	-	9,139	(9,139)	-	-
Dividend declared (note 16)	-	-	(36,600)	-	(36,600)
Balance at 31 December 2022	894,523	50,073	93,893	(222)	1,038,267
Profit for the year	-	-	102,859	-	102,859
Other comprehensive loss (note 14)	-	-	-	(88)	(88)
Total comprehensive income			102,859	(88)	102,771
Transfer to statutory reserve (note 18)	-	10,286	(10,286)	-	-
Dividend declared (note 16)	-	-	(44,726)	-	(44,726)
Balance at 31 December 2023	894,523	60,359	141,740	(310)	1,096,312

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

		2023	2022
	Notes	SR '000	SR '000
OPERATING ACTIVITIES			
Profit before zakat		108,495	95,411
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Income from investments at fair value through profit or loss, net	8	(203,250)	(169,314)
Depreciation of property and equipment	10	3,404	3,312
Depreciation of right of use assets	9	776	776
Provision for employees' benefits liabilities	14	3,477	2,992
Finance cost on leased liabilities	9	213	249
Disposal of property and equipment		2	-
		(86,883)	(66,574)
<i>Changes in operating assets and liabilities</i>			
Accounts receivable, prepayments and other receivables	6	(341)	7,685
Due from related parties	7	(32,436)	(60,426)
Accounts payable, accrued and other liabilities	11	(59,086)	(25,769)
Purchase of investments at FVTPL	8	-	(247,139)
Proceeds from disposal of investments at FVTPL	8	161,759	322,995
Cash used in operations		(16,987)	(69,228)
Employees' benefits liabilities paid	14	(2,419)	(1,646)
Zakat and income tax paid	15	(3,011)	(2,295)
Net cash used in operating activities		(22,417)	(73,169)
INVESTING ACTIVITIES			
Purchase of property and equipment	10	(994)	(1,560)
Murabaha placements issued	7	(7,000)	(77,250)
Proceeds from Murabaha placements	7	8,161	230,012
Net cash from investing activities		167	151,202
FINANCING ACTIVITIES			
Murabaha contracts issued		292,000	341,000
Murabaha contracts repaid		(298,989)	(630,229)
Sharia compliant financing paid		(17,071)	(18,750)
Sharia compliant financing received		88,500	237,400
Payment of principal portion of lease liabilities	9	(1,000)	(900)
Dividend paid	16	(37,957)	(30,505)
Net cash from / (used in) financing activities		25,483	(101,984)
Net increase / (decrease) in cash at banks		3,233	(23,951)
Cash at banks at the beginning of the year		26,823	50,774
Cash at banks at the end of the year		30,056	26,823
NON-CASH SUPPLEMENTARY INFORMATION			
Payable against investment purchased during the year	11	-	84,150
Gain on re-measurement of employees' benefits liabilities	14	88	605
Dividend shares	10	22	-

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 DECEMBER 2023

1 ORGANIZATION AND ACTIVITIES

AlKhabeer Capital Company (“AKC”, or “the Company”) is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030177445 dated 14 Rabi Awal 1429H (corresponding to 22 March 2008). The Commercial Registration of the Company was amended on 14 Shawal 1430H (corresponding to 5 October 2009) by virtue of which the name of the Company was amended from AlKhabeer Merchant Finance Corporation to AlKhabeer Capital Company.

The Company is engaged in the following activities in accordance with the Capital Market Authority’s Resolution no. H/T/919 dated 3 Rabi a’ Thani 1429H (corresponding to 9 April 2008) and License No. 07074-37:

- a) Arranging
- b) Managing
- c) Advising
- d) Custody
- e) Underwriting; and
- f) Dealing

The Company’s registered office is located at the following address:

AlKhabeer Capital
Al-Madina Road, P.O. Box 128289
Jeddah
Saudi Arabia

As at 31 December 2023, the Company operates through a branch with commercial registration 1010439273 registered in Riyadh (31 December 2022: same). The accompanying financial statements include the assets, liabilities and results of this branch.

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as “the Law”) came into force on 26/6/1444 H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The Company has amended its bylaws to align it to the provisions of the Law.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

The Company has multiple unrelated investors and holds and/or manages multiple investments in various funds and companies (hereinafter referred as ‘Investee and/or Managed Entities’). Ownership interests of the Company in investee entities are in the form of equity/ownership stake. The Company has been deemed to meet the definition of an investment entity as per IFRS 10 “Consolidated Financial Statements” as the following conditions exist;

- a) The Company has obtained funds for purpose of providing investors with professional investment management services;
- b) The Company’s business purpose is investing for capital appreciation and investment income; and
- c) The investments are measured and evaluated on a fair value basis.

Since the Company meets the definition of an investment entity as per the guidance given in IFRS 10 “Consolidated Financial Statements” (note 3), it is exempted from consolidating the investee entities and from the application of IFRS 3 “Business Combinations” when it obtains control of another entity. Such unconsolidated investee entities are, instead, measured and classified by the Company as ‘financial asset at fair value through profit or loss’ in accordance with IFRS 9 “Financial Instruments”.

2. BASIS OF PREPARATION (continued)

2.2 Basis of measurement

These financial statements are prepared under the historical cost convention, except for investments measured at fair value through profit or loss and actuarial valuation of employees' benefits liabilities which are calculated using "Projected Unit Credit Method".

2.3 Functional and presentation currency

These financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency of the Company. Financial information, presented in Saudi Riyals, has been rounded off to the nearest thousand, unless otherwise stated.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most relevant effect on the amounts recognised in the financial statements.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, these financial statements have been prepared on a going concern basis.

Determining the lease term of contracts with renewal and termination options – Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Generally, the Company enters into lease contracts which include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Company included the renewal period as part of the lease term for leases due to the significance of leased assets to its operations.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Fair value estimation of investments at fair value through profit or loss

Management uses a standard and consistent valuation technique to ascertain the fair values. In all cases, management uses the reported net asset values (NAV) of the investee entities as their fair valuation. However, the NAV of the investee entities are assessed based on the fair values estimates using various techniques as deemed necessary including but not limited to discounted cash flows, comparable transactions, earning multiples, recent sales transactions, etc. If necessary, adjustments to the NAV are made to obtain the best estimate of fair value. In addition to the NAV, the valuation is based on management's best estimate considering recent purchase or sale transactions, available financial information or other suitable indicators of the fair value.

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Impairment charge for expected credit losses of financial assets

The Company uses a provision matrix to calculate ECLs for financial assets. The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions as well as the available security. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Company's financial assets is disclosed in note 23.

Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-zakat discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Actuarial valuation of employees' benefits liabilities

The cost of the end of service benefits ("employees' benefits") under defined unfunded benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

Provisions

Provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments, estimates and assumptions (continued)

Investment entity

An investment entity is an entity that: (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company's objective by investing the investee entities remain to be earning fee and capital appreciation. All investments are reported at fair values. The Company has a clearly documented exit strategy for all of its investments. The Company meets the definition the additional characteristics of an investment entity, in that it has more than one investment; the investments are predominantly in the form of units, shares and similar securities; it has more than one investor and its investors are not related parties. Management has concluded that the Company meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any, if these criteria or characteristics change.

Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of profit that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

2.5 Impact of new standards, interpretations and amendments adopted by the Company

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The new standard had no impact on the Company's financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Company's financial statements.

2. BASIS OF PREPARATION (continued)

2.5 Impact of new standards, interpretations and amendments adopted by the Company

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments have had an impact on the Company disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Company's financial statements.

International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

1. A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
2. Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The amendments had no impact on the Company's financial statements as the Company is not in scope of the Pillar Two model rules as its revenue is less than EUR 750 million/year.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information adopted for the preparation of these financial statements are as follows:

3.1 Foreign currencies

Transactions in foreign currencies are initially recorded by the Company in its functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised as profit or loss with the exception of monetary items that are designated as part of the hedge of the Company's net investment in a foreign operation. These are recognised as other comprehensive income (OCI) until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.2 Current versus non-current classification

Assets

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Liabilities

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

3.3 Fair value measurement

The Company measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of accounts receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 *Revenue from contracts with customers*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and profit (SPPP)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in following categories:

- a) Financial assets at amortised cost
- b) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- d) Financial assets at fair value through profit or loss (FVTPL)

a) Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective profit rate (EPR) method and are subject to impairment. Gains and losses are recognised in statement of profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes cash at banks and accounts receivable, prepayments and other receivables.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.4 Financial instruments (continued)

i) Financial assets (continued)

Subsequent measurement (continued)

b) Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, profit income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Currently, the Company does not have any financial assets at fair value through OCI.

c) Financial assets at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Currently, the Company does not have any financial assets at fair value through OCI.

d) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including consolidated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and profit are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets classified as fair value through profit or loss comprise investments in a short term discretionary portfolio and the investee entities, are acquired principally for the purpose of selling or repurchasing in the short term.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of the business on the reporting date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the underlying Net Asset Value (NAV) of the of the respective investee entity, which is reflective of the fair value of these securities.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.4 Financial instruments (continued)

i) Financial assets (continued)

Business model assessment

The Company makes an assessment of the objective of a business model under which an asset is held, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for financial assets and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the financial assets are evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit ("SPPP" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic placement risk associated with the principal amount outstanding during a particular period and other basic financing costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financing, payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of financing and payables, net of directly attributable transaction costs. The Company's financial liabilities include accounts payable, other liabilities, Shariah compliant financing and Murabaha contract.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.4 Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Amortised cost

After initial recognition, long term payables are subsequently measured at amortised cost using the EPR method. Gains and losses as a result of unwinding of profit cost through EPR amortization process and on de-recognition of financial liabilities are recognized in the statement of profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included as finance costs in the statement of profit or loss.

iii) Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)**3.5 Impairment of financial and non-financial assets*****Financial assets***

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

The Company recognises an allowance for ECLs for all financial assets not held at fair value through profit or loss. For accounts receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company also take into account the underlying securities as well as its rights to claim. In all cases, the Company has a priority claim as asset manager over the cash flows generated by the respective investee entity. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when payments are not made as per contractual terms which may vary from obligor to obligor. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used. The value in use is assessed by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.6 Investment properties

Investment property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the Company. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, in accordance with the requirements of Capital Market Authority (CMA) Regulations, the company policy is to measure investment properties using the cost model.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement for profit or loss in the period of derecognition.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)**3.6 Investment properties (continued)**

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

3.7 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land and capital work in progress are not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements/assets are depreciated on a straight-line basis over the shorter of the useful life of the improvement/assets or the term of the lease.

Expenditure for repairs and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalized. Gains or losses on sale or retirement of property and equipment are included in the statement of profit or loss.

The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Building	25
Leasehold improvements	4 and 11
Office and computer equipment	3-4
Furniture and fixtures	4
Vehicles	5

3.8 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company, and accordingly, are not included in the statement of financial position. Details of these assets are disclosed in note 25 of the financial statements.

3.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.10 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.10 Leases (continued)

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use) if it is significant. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The unwinding component of finance cost is included in the statement of profit or loss.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term in the statement of profit or loss.

3.11 Employee benefits liabilities

The Company operates an employees' end of service benefits scheme benefits.

End of service benefits, as required by Saudi Arabia Labour Law, are required to be provided based on the employees' length of service.

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return of the services in the current and prior periods. The benefits are discounted to determine its present value and any unrecognized past service cost.

The discount rate used is the market yield on government bonds at the reporting date that has maturity dates approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Company's present value of the obligation by a qualified actuary. Defined benefits liability comprises of the following:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net profit expense / income; and
- Remeasurement gains/(losses).

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.11 Employee benefits liabilities (continued)

The Company recognizes and presents the first two components of the defined benefit costs in profit or loss. Gains / (losses) due to re-measurement of employee benefits liabilities are recognized in other comprehensive income immediately. Curtailment gains / (losses) are accounted for as past service cost in the profit or loss in the period of plan amendment.

The companies in KSA are also required to contribute towards a state-owned benefit plan, General Organization for Social Insurance ("GOSI"), where the Company's obligation under the plan is to make specified monthly contribution based on specified percentage of payroll cost as stipulated under the regulation. These contributions are recognized as an expense when employees have rendered the service entitling them to the contributions. Any unpaid amounts are classified as accruals.

A liability is also recognized for benefits accruing to the employees in respect of wages and salaries, annual leaves and other related benefits in the period the related services are rendered at the undiscounted amount of the benefits expected to be paid and are classified as accruals.

3.12 Revenue recognition

Revenue is the gross inflow of economic benefits arising from the ordinary operating activities of the Company when those inflows result in increase in equity, other than increases relating to contributions from equity participants. Revenue is measured at fair value of consideration received or receivable. Revenue is recognized to the extent that it is probable that any future economic benefit associated with the item of revenue will flow to the Company, the revenue can be reliably measured, regardless of when the payment is being made and the costs are identifiable and can be measured reliably.

The Company applies a five-step model to determine when to recognize revenue and at what amount.

- Step:1 Identify the contract with the customer
- Step:2 Identify the performance obligations in the contract
- Step:3 Determine the transaction price
- Step:4 Allocate the transaction price to the performance obligations in the contract
- Step:5 Recognize revenue when or as the entity satisfies a performance obligation

Accordingly, the Company recognizes revenue when or as a performance obligation is satisfied. i.e. when control of the services pertaining to the respective performance obligation is transferred to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

- Fixed fees received under financial services agreements are non-refundable. These are initially recorded as unearned income and subsequently earned when the related milestones have been met or the agreement is terminated.
- Success fees are recognized when the related financing has been successfully raised for the client.
- Management and custody fees are recognized on a time apportioned basis.
- Finance income on Murabaha placements is recognised on a time apportioned basis.
- Dividend income is recognised when the right to receive payment is established.

3.13 Expenses

Selling and distribution expenses are those that specifically relate to marketing expenditure. All other expenses are classified as general and administration expenses.

3.14 Zakat and income tax

Zakat

The Company is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat, Tax and Customs Authority ("ZATCA") and is charged to the statements of profit or loss. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid for the current year to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the Kingdom of Saudi Arabia.

3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.14 Zakat and income tax (continued)

Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference and unused tax losses arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax is provided using the liability method on temporary differences at the reporting date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax is charged or credited to income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Withholding tax

The Company companies withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with ZATCA regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

3.15 Dividend distributions

The Company recognizes a liability to make cash dividends distribution to shareholders when the dividends are authorised and no longer at the discretion of the Company. The corresponding amount is directly recognized in statement of changes in shareholders' equity.

3.16 Value added tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

Effective for annual periods beginning on or after 1 January 2024. In September 2022, the Board issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are not expected to have a material impact on the Company's financial statements.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The amendment is not expected to have any impact on the financial statements of the Company.

Disclosures: Supplier Finance Arrangements Amendments to IAS 7 and IFRS 7

In May 2023, the Board issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed. The amendments are not expected to have a material impact on the Company's financial statements.

Lack of exchangeability – Amendments to IAS 21

In August 2023, the IASB issued Lack of Exchangeability (Amendments to IAS 21). The amendment to IAS 21 specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted, but will need to be disclosed. The amendments are not expected to have a material impact on the financial statements of the Company.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted, but will need to be disclosed.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

5. MURABAHA PLACEMENTS

	31 December 2023 SR '000	31 December 2022 SR '000
Murabaha placement	2,558	3,719
Less: included in current assets	(2,558)	(3,619)
Long-term	-	100

Murabaha placements are primarily with investee entities, carry profit rate of 7.0% per annum (31 December 2022: 4.25% to 6.25% per annum) and are subject to 0.10% per annum (31 December 2022: 0.25% per annum) management fee.

6. ACCOUNTS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2023 SR'000	31 December 2022 SR'000
Prepayments	2,542	2,162
Advances to suppliers	2,677	1,789
Accounts receivable, net of provision	46	517
Margin deposit (note a)	-	380
Other receivables	1,515	1,591
	6,780	6,439

- a) As at 31 December 2022, the Company has maintained a margin deposit of SR 0.38 million with a local bank in respect of a guarantees issued in favour of ZATCA.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

7. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent directors and key management personnel of the Company, and or Investee entities, controlled by or significantly influence the Company and or Investee Entities. The pricing and terms are approved by the management of the Company.

a) Significant transaction with investee entities during the year and balances at yearend are described below:

<i>Nature of transactions</i>	<i>Amount of transactions for the year ended</i>		<i>Balances as at</i>	
	<i>31 December 2023 SR'000</i>	<i>31 December 2022 SR'000</i>	<i>31 December 2023 SR'000</i>	<i>31 December 2022 SR'000</i>
<i>Transactions with investee entities as follows:</i>				
<i>Investments at fair value through profit or loss</i>			1,463,526	1,439,145
Investments acquired during the year (note 8)	-	331,224		
Investment disposed during the year (note 8)	(161,759)	(322,764)		
Gain/ (loss) recorded on investments at fair value through profit or loss, net	203,228	169,314		
Advances and expenses incurred on behalf of investee entities	15,194	49,878	64,523	59,213
Management, custody, subscription, performance fees and structure fee	75,291	85,827	186,459	159,333
			<u>250,982</u>	<u>218,546</u>
Murabaha placement during the year and their balances with the investee entities	7,000	74,250		
Murabaha placements matured during the year with the investee entities	(6,200)	(223,950)	900	100

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

7. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

- b) The Company being the Asset Manager, incurs expenses on behalf of the investee entities in the normal course of business.
- c) The Company has issued a corporate guarantee on behalf of a related party (note 26).
- d) Key management personnel including members of the Board of Directors of the Company and key members of the management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:

	2023 <i>SR '000</i>	2022 <i>SR '000</i>
Salaries and other short-term expenses	18,864	18,657
Post-employment benefits	1,192	1,205
	<u>20,056</u>	<u>19,862</u>

8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company meets the definition of an “investment entity”. Accordingly, its investments in investee entities are carried at their fair value through profit or loss as “investments at fair value through profit or loss”.

The movement in the investments at fair value through profit or loss for the year ended 31 December is as follows:

	2023 <i>SR '000</i>	2022 <i>SR '000</i>
Opening balance	1,439,273	1,261,665
Purchased during the year	-	331,289
Dividends shares	22	-
Sold during the year	(161,759)	(322,995)
Fair value gains	203,228	169,314
	<u>1,480,764</u>	<u>1,439,273</u>
Less: included in the current assets	(150,120)	(300,128)
	<u>1,330,644</u>	<u>1,139,145</u>

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

a) The details of the Company's holding in the investee entities are as follows:

Name of Investee Entities	31 December 2023 %	31 December 2022 %
Real Estate		
Alkhabeer Real Estate Opportunity Fund I – Investing in Land Development in Western Province, Kingdom of Saudi Arabia (KSA)	38%	38%
Alkhabeer Real Estate Opportunity Fund II - Investing in Land Development in Western Province, KSA	100%	100%
Alkhabeer Hospitality Fund I - Investing in Land Development in Western Province, KSA	75%	75%
Alkhabeer Real Estate Residential Development Fund II - Investing in Land Development in Western Province, KSA	8%	8%
Alkhabeer GCC Opportunity Company - Investing in income generating properties in Eastern Province, KSA	0.05%	0.05%
Private Equity		
Industrial sector		
Alkhabeer Industrial Private Equity Company – III Ltd - Investing in Manufacturing facilities in United Arab Emirates (UAE)	-	40%
AlKhabeer Saudi Private Equity Fund 1 - Investing in medical sector in Central Province, KSA	100%	100%
AlKhabeer Saudi Private Equity Fund 2 - Investing in medical sector in Western Province, KSA	12.3%	12.3%
AlKhabeer Industrial Private Equity Fund IV - Investing in manufacturing facilities in Eastern Province, KSA	31.8%	20%
Alkhabeer Car Rental Private Equity Fund - Investing in car rental sector in KSA	44.5%	92%
Education Sector		
Alkhabeer Education Private Equity Fund I - Investing in Schools in Central Province, KSA	0.10%	0.10%
Alkhabeer Education Private Equity Fund II - Investing in Schools in KSA and UAE	84%	84%
Alkhabeer Education Private Equity Fund III - Investing in Schools in Central Province, KSA	83%	83%
Alkhabeer Education Private Equity Fund IV - Investing in Schools in Western Province, KSA	98%	98%
Alkhabeer Education Private Equity Fund V - Investing in Schools in Central Province, KSA	0.06%	0.06%
Alkhabeer Education Private Equity Fund VI - Investing in Schools in Central Province, KSA	100%	100%
Alkhabeer Education Private Equity Fund VII - Investing in Schools in Western and Central Province, KSA	11.63%	11.63%

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

b) Breakdown of investments by sector is as follows:

	31 December 2023 SR '000	31 December 2022 SR '000
Investment in:		
Real Estate	255,006	281,626
Private Equity	1,208,520	1,157,519
Public Equity	17,238	128
	1,480,764	1,439,273

9. RIGHT OF USE ASSETS

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the year:

	31 December 2023 SR '000	31 December 2022 SR '000
Opening asset balance	4,660	5,436
Less: depreciation for the year	(776)	(776)
As at 31 December	3,884	4,660

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	31 December 2023 SR '000	31 December 2022 SR '000
Opening lease liability	5,337	5,989
Payment of principal portion of lease liabilities during the year, net of profit cost	(787)	(652)
Closing lease liability	4,550	5,337
Included in current liabilities	(825)	(787)
Long term portion of lease liability	3,725	4,550

The following are the amounts recognized in profit or loss:

	31 December 2023 SR '000	31 December 2022 SR '000
Depreciation expense of right-of-use assets	776	776
Finance cost on leased liabilities	213	249
Total amount recognized in profit or loss	989	1,025

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

10. PROPERTY AND EQUIPMENT

	<i>Land</i>	<i>Building</i>	<i>Leasehold improvements</i>	<i>Office and computer equipment</i>	<i>Furniture and fixtures</i>	<i>Vehicles</i>	<i>Capital work in progress (Note a)</i>	<i>31 December 2023</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Cost								
At the beginning of the year	6,966	43,569	10,961	21,107	2,223	396	2,037	87,259
Additions	-	130	-	297	58	509	-	994
Transfer	-	-	-	649	-	-	(649)	-
Disposals	-	(2,530)	(1,985)	(9,103)	(5)	-	-	(13,623)
At the end of the year	6,966	41,169	8,976	12,950	2,276	905	1,388	74,630
Accumulated depreciation								
At the beginning of the year	-	12,460	6,149	20,108	1,667	396	-	40,780
Depreciation (note 21)	-	1,648	807	648	236	65	-	3,404
Relating to disposals	-	(2,530)	(1,985)	(9,101)	(5)	-	-	(13,621)
At the end of the year	-	11,578	4,971	11,655	1,898	461	-	30,563
Net book amounts								
At 31 December 2023	6,966	29,591	4,005	1,295	378	444	1,388	44,067

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

10. PROPERTY AND EQUIPMENT (continued)

	<i>Land</i>	<i>Building</i>	<i>Leasehold improvements</i>	<i>Office and computer equipment</i>	<i>Furniture and fixtures</i>	<i>Vehicles</i>	<i>Capital work in progress</i>	<i>31 December 2022</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Cost								
At the beginning of the year	6,966	43,070	10,961	20,531	2,107	396	1,668	85,699
Additions	-	-	-	314	116	-	1,130	1,560
Transfer	-	499	-	262	-	-	(761)	-
At the end of the year	<u>6,966</u>	<u>43,569</u>	<u>10,961</u>	<u>21,107</u>	<u>2,223</u>	<u>396</u>	<u>2,037</u>	<u>87,259</u>
Accumulated depreciation								
At the beginning of the year	-	10,830	5,342	19,463	1,443	390	-	37,468
Depreciation (note 21)	-	1,630	807	645	224	6	-	3,312
At the end of the year	<u>-</u>	<u>12,460</u>	<u>6,149</u>	<u>20,108</u>	<u>1,667</u>	<u>396</u>	<u>-</u>	<u>40,780</u>
Net book amounts								
At 31 December 2022	<u>6,966</u>	<u>31,109</u>	<u>4,812</u>	<u>999</u>	<u>556</u>	<u>-</u>	<u>2,037</u>	<u>46,479</u>

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

11. ACCOUNT PAYABLES, ACCRUED AND OTHER LIABILITIES

	31 December 2023 SR '000	31 December 2022 SR '000
Payable against investment purchased (see note below)	1,512	86,245
Accounts payable	15,589	13,329
Remuneration payable to employees	39,442	30,854
Accrued expenses	38,912	30,877
Other provisions	11,205	4,075
Zakat and income tax (note 15)	12,478	9,853
Dividend payable	12,864	6,095
Other payables	7,607	5,768
Total current amount	139,609	187,096
Non-current portion		
Other provisions	61,720	63,925
Total	201,329	251,021

The amount represents the outstanding payable against purchase of investments in the investee entities during the year ended 31 December 2022 (see note 8).

12. MURABAHA CONTRACTS

This represent commodity Murabaha contracts executed with investors through Discretionary Portfolio Managers (DPMs). The Murabaha contracts are unsecured, carry profit rate ranging from 5.25% to 7.50% per annum (31 December 2022: 4% to 7.50% per annum) and are subject to nil to 0.5% per annum (31 December 2022: nil to 0.5% per annum) management fee.

	31 December 2023 SR '000	31 December 2022 SR '000
Murabaha contracts	334,279	341,268
Less: included in current liabilities	(211,479)	(231,368)
Long-term	122,800	109,900

13. SHARIA COMPLIANT FINANCING

During 2022, the Company obtained a sharia compliant financing from a local bank with approved limit of SR 350 million. As at 31 December 2023, the Company has an undrawn amount of SR 24.1 million (2022: SR 112.6 million). The facility is repayable semi-annually over a period of seven years starting from September 2023. The financing carry agreed profit margin and is secured against "investments property" (see note 28) and certain "investments at fair value through profit or loss" and all returns generated from respective investments.

	31 December 2023 SR '000	31 December 2022 SR '000
Sharia compliant financing	308,829	237,400
Less: included in current liabilities	(37,604)	(13,696)
Long-term included in non-current liabilities	271,225	223,704

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

14. EMPLOYEES' BENEFITS LIABILITIES

Changes in the present value of defined benefit obligation are as follows:

	2023	2022
	SR '000	SR '000
Balance at the beginning of the year	20,184	19,443
Current service cost	2,565	2,451
Profit cost	912	541
Benefits paid	(2,419)	(1,646)
Actuarial loss/(gain), net	88	(605)
	21,330	20,184

Principal assumptions used in determining employees' benefits liabilities are as shown below:

	31 December	31 December
	2023	2022
	SR '000	SR '000
Discount rate	4.75 %	4.50%
Salary increase rate	2.75 %	2.75%
Staff withdrawal rate	8.00 %	8.00%

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the employees' benefits liabilities by the amounts shown below:

	Increase/(decrease)	
	31 December	31 December
	2023	2022
	SR'000	SR'000
Discount rate		
+1% increase	(1,233)	(1,173)
-1% decrease	1,379	1,496
Future salary growth		
+1% increase	1,393	1,507
-1% decrease	(1,268)	(1,205)

Significant actuarial assumptions for the determination of the employees' benefits liabilities are discount rate, expected salary increase and mortality. The sensitivity analysis has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

15. ZAKAT AND INCOME TAX

Zakat provision was estimated as follows:

	2023 SR '000	2022 SR '000
Equity	993,763	947,098
Other adjustments	399,692	18,877
Book value of long-term assets	(1,672,590)	(1,479,872)
	(279,135)	(513,897)
Saudi Shareholders' share of adjusted income for the year (see note below)	(82,432)	100,798
Adjusted zakat base	(361,567)	(413,099)

During 2023, ZATCA issued a guide for the purpose of clarifying some of the treatments related to the application of the regulatory provisions in effect in relation to calculation of Zakat for investors in investment funds. The guide aimed to regulate the mechanism for calculating zakat for investors in investment funds in order to qualify zakat and taxpayers subject to the provisions of the regulation to include their investment units owned in these funds as deductions from the components of the zakat base in their zakat declarations, if the conditions for the deduction are met. ZATCA requested from all investment funds to register with ZATCA and to submit the information only return annually.

Accordingly, the Company has deducted the investments from the zakat base for 2023 and the zakat charge for the year ended 31 December 2023 represents the Zakat on the Company's units in the investment funds.

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with relevant fiscal regulations.

Movement in provision during the year

The movement in zakat provision for the year was as follows:

	31 December 2023 SR '000	31 December 2022 SR '000
Balance at the beginning of the year	9,853	7,932
Charge for the current year	5,636	4,020
Paid during the year	(3,011)	(2,099)
Balance at the end of the year (see note 11)	12,478	9,853

Income tax

Income tax charges are based on the adjusted taxable income calculated on the portion of equity owned by the foreign shareholder. The significant tax adjustments made to accounting net income relate to depreciation, employees' termination benefits and provision against doubtful receivables. Management believes that impact of deferred tax, if any, is not material to the financial statements.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

15. ZAKAT AND INCOME TAX (continued)

Movement in provision during the year

The movement in income tax provision for the year was as follows:

	31 December 2023 SR '000	31 December 2022 SR '000
Balance at the beginning of the year	-	196
Charge for the year	-	-
Paid during the year	-	(196)
Balance at the end of the year (see note 11)	- -	-

Status of assessments

ZATCA raised an assessment with an additional liability amounting to SR 9.36 million for the year ended 31 December 2010. The Company filed an objection against the ZATCA assessment. ZATCA referred the objection to the General Secretariat of Tax Committees (GSTC), and the Second Circuit for Adjudication of Income Tax Violations and Disputes reduced the additional liability to SR 9.18 million. The decision was appealed before the Appeal Committee, and the Company is waiting for a hearing and discussion session to be scheduled.

The ZATCA has issued an assessment for the year ended 31 December 2017 and raised an additional tax and Zakat liability amounting to SR 35.8 million. The additional liability is principally on account of disallowed investments. The Company filed an objection against the ZATCA assessment. The Company also registered the case with General Secretariat of Tax Committees (GSTC) and provided comments on the ZATCA's response and escalated its objection to the Appeal Committee. During 2023, the Company reached a settlement agreement with ZATCA to settle 2017 assessment against a total payment of SR 15.35 million payable in 12 installments over a period of 12 months. During 2023, the Company paid an advance amount of SR 3.06 million, which represents an advance of 20% of the total Zakat liability.

The ZATCA has issued an assessment for the year ended 31 December 2015 and raised an additional tax and Zakat liability amounting to SR 33.48 million. The additional liability is principally on account of disallowed investments. The Company filed an objection against the ZATCA assessment. The Company registered the case with GSTC and provided comments on the ZATCA's response. The GSTC accepted Company's objection on withholding tax items and applied the delay fine of 1% and rejected the other items. Company has escalated its objection to the Appeal Committee during 2022. The Appeal Committee accepted the Company's objection on several expenses, the difference in retained earnings, foreign investments and investment in a subsidiary, and rejected the other items. The decision reduced the additional zakat and tax liability to SR 23.40 million. The Company submitted a petition to reconsider the decision and currently waiting for a decision by the Appeals Committee.

During the year ended 31 December 2022, ZATCA has issued an assessment for the year ended 31 December 2016 and 2018 and raised an additional tax and Zakat liability amounting to SR 28.8 and SR 38.6 million, respectively. The additional liability is principally on account of disallowed investments. The Company filed an objection against the ZATCA assessment and waiting for reply. During the year, ZATCA rejected Company's objection and hence, the objection was escalated to the GSTC.

Pursuant to the clarification issued by ZATCA, the Company's management expects a favourable decision regarding the above appeals. The Company has filed its tax and zakat returns up to the financial year ended 31 December 2022 with ZATCA and obtained restricted Zakat certificate valid until 30 April 2024.

16. DIVIDEND

During 2023, the Shareholders of the Company in their Annual General meeting held on 24 May 2023 approved final cash dividend of 5% of paid up capital amounting to SR 44.7 million for the year ended 31 December 2022.

During 2022, the Shareholders of the Company in their Annual General meeting held on 25 April 2022 approved final cash dividend of 4.09% of paid up capital amounting to SR 36.6 million for the year ended 31 December 2021.

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

17. SHARE CAPITAL

The share capital of the Company, amounting to SR 894,523,230 is divided into 89,452,322 shares of SR 10 each (31 December 2022: 89,452,322 shares of SR 10 each).

The Company is owned 100% by Saudi shareholders and GCC shareholders (31 December 2022: same).

18. STATUTORY RESERVE

In accordance with the By-Laws of the Company, the Company must set aside 10% of its net income (after adjusting the accumulated losses) until it has built up a reserve equal to 30% of the capital. This reserve is not available for distribution.

19. FEE INCOME

	2023 SR '000	2022 SR '000
Management, custody subscription, and commission fees	73,018	86,299
Performance and structure fee	3,189	286
Advisory fees	394	-
	<u>76,601</u>	<u>86,585</u>

20. SELLING AND MARKETING EXPENSES

	2023 SR '000	2022 SR '000
Salaries and benefits	4,474	4,169
Other	5,492	5,477
	<u>9,966</u>	<u>9,646</u>

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2023 SR '000	2022 SR '000
Employees' salaries and related expenses	81,645	74,085
Due diligence, legal and professional fees	21,245	22,434
Information technology expense, software and licenses	8,376	4,906
Depreciation (note 10)	3,404	3,312
Board of director's expenses	2,880	2,757
Lead manager and receiving fees	-	2,534
Business travel expense	2,822	2,090
Maintenance, hospitality and cleaning	1,387	1,646
Depreciation on right of use assets (note 9)	776	776
Utilities	902	596
Other	3,030	2,852
	<u>126,467</u>	<u>117,988</u>

ALKHABEER CAPITAL COMPANY (A Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

22. MURABAHA AND FINANCING EXPENSES

	2023 SR '000	2022 SR '000
Finance cost on Murabaha Contracts	23,729	35,616
Finance cost and amortisation of upfront fee on Shariah Compliant financing	21,697	4,496
	<u>45,426</u>	<u>40,112</u>

23. RISK MANAGEMENT

The Company's objective in managing risk is the creation and protection of shareholders' value. Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposure relating to his or her responsibilities. These limits reflect the business strategy and market environment of the Company as well as the level of the risk that the Company is willing to accept. The Company is exposed to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fluctuation of fair value or future cash flows of a financial instrument as a result of changes in market prices, rates, and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Company's market risk comprises of three types of risks: Profit rate risk, currency risk and equity price risk.

Profit rate risk

Profit rate risk arises from the effects of fluctuations in the prevailing levels of markets profit rates on the fair value of financial assets and liabilities as well as reported income/losses due to changes in future cash flow. The Company is exposed to profit rate cash flow risk arising from the variable rate Shariah compliant borrowings that expose the Company to cash flow profit rate risk. The sensitivity of the Company's profit before tax to a reasonably possible change in profit rates by 100 basis points on shariah compliant financing is SR 3.09 million (2022: SR 2.37 million). The Company's manages its rate risk on a dynamic basis keeping in view overall rate bearing assets and liabilities and the Company requirements.

The Company's Murabaha placements are of long and short term nature carrying fixed rate. As of the statement of financial position date, a change of 1% in the applicable profit rates for Murabaha placements would result in SR 0.03 million (2022: SR 0.04 million) lower/higher fair value gain/loss.

The Company's Murabaha contracts are of long term nature carrying fixed rate. However, certain Murabaha contracts, though carry fixed rate, were of short term nature and had a history of frequent rollover and could expose the Company to cash flow rate risk. As of the statement of financial position date, a change of 1% in the applicable profit rates would result in SR 3.34 million (2022: SR 3.41 million) lower/higher profit for the year.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company invests in various special purpose entities and other investments that are denominated in currencies other than the Saudi Riyal which are pegged to the Saudi Riyal accordingly the Company is not exposed to significant foreign exchange risk.

Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equity as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Company's investments in equity securities. The Company is not exposed in equity price risk as none of the investment are quoted.

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

23. RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. The Company is exposed to credit risk on its cash at banks, Murabaha placements, accounts receivable and due from related parties.

An allowance for expected credit losses is maintained which in the judgment of management, is adequate to provide for potential losses on delinquent receivables.

At each reporting date, all cash at banks are assessed to have low credit risk as they are held with reputable and high credit rating domestic and international banking institutions and there has been no history of default with any of the cash at banks. Therefore, the probability of default based on forward looking factors and any loss given default are considered negligible.

Murabaha placement are unsecured and receivable from related parties. As of the reporting date, there are no past due.

Due from related parties are unsecured, yield free and have no fixed repayment. No receivable balance from related parties at the reporting date are past due, taking into account the historical default experience and the future prospects of the industries in which the related parties operate, the management considers that related party balances are not impaired.

In calculating the expected credit loss allowance for accounts receivable and due from related parties, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates.

The Company's maximum undiscounted exposure to credit risk for the components of the statement of financial position and respective expected credit loss is as follows:

Financial assets	31 December 2023		31 December 2022	
	Exposure at default	Expected credit loss	Exposure at default	Expected credit loss
	SR'000	SR'000	SR'000	SR'000
Murabaha placements (note 5)	2,558	-	3,719	-
Due from related parties (note below)	250,982	-	218,546	-
Accounts and other receivables	1,126	1,080	1,597	1,080

At the reporting date, the ageing of financial assets is as follows:

	31 December 2023					
	Current	< 1 Year	1-2 Years	2-3 Years	> 3 Years	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Murabaha placements (note 5)	2,558	-	-	-	-	2,558
Due from related parties (note below)	62,991	17,414	55,302	36,590	78,685	250,982
Accounts and other receivables	46	-	-	-	1,080	1,126

	31 December 2022					
	Current	< 1 Year	1-2 Years	2-3 Years	> 3 Years	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Murabaha placements (note 5)	3,719	-	-	-	-	3,719
Due from related parties (note below)	62,594	32,141	42,189	22,402	59,220	218,546
Accounts and other receivables	517	-	-	-	1,080	1,597

23. RISK MANAGEMENT (continued)

Credit risk (continued)

In its capacity as asset manager, the Company has first right to recover the balance due from investee entities under management in respect of outstanding fees and subsequently Murabaha placements. As at the date of financial statements, underlying entities have positive net assets value and management estimated that expected credit losses, if any, would not be material.

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Exposure to liquidity risk arises because of the possibility that the Company could be required to pay its liabilities or redeem its shares earlier than expected.

The efficient management of liquidity risk begins with the development of written policies and procedures, including the policy of minimal acceptable levels of liquidity. Liquidity risk management is performed by continuous liquidity monitoring, measuring and reporting.

The Company's financial liabilities are payable within 12 months from the statement of financial position date except certain long-term murabaha contracts and lease liabilities which have maturity of more than 12 months from the statement of financial position date.

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 Company's financial assets consist of cash and cash equivalents, accounts receivable, Murabaha placements, investments at fair value through profit or loss, due from related parties and financial liabilities consist of accounts payable, shariah compliant financing and Murabaha contracts.

The fair values of investments in investee entities is obtained from net asset values of those entities or recent sales transactions. In real estate entities, the fair value of underlying real estate investments is based on the valuation provided by independent valuers.

As at the date of statement of financial position, all financial assets and financial liabilities falls under level 3 of fair value hierarchy. The fair values of financial instruments are not materially different from their carrying values (31 December 2022: same). During the year, there was no movement between fair value hierarchy levels.

25. ASSETS HELD UNDER FIDUCIARY CAPACITY

The Company holds assets on behalf of its customers. As the Company acts in a fiduciary capacity, these assets are not included in the statement of financial position. As at 31 December 2023, the Company holds assets under management amounting to SR 6,473 million (31 December 2022: SR 6,644 million) on behalf of, and for the beneficial interest of, its customers.

Legal title of the underlying assets of the Company's investee entities are held by the custodian through certain special purpose vehicles. Since, the Company has ownership interest in these special purpose vehicles as trustee, the financial information and related share of results of these entities are not included in these financial statements. In the ordinary course of business, the Company also holds certain banks accounts on behalf of the investee entities.

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

26. CONTINGENCIES AND CAPITAL COMMITMENTS

- a) Certain legal claims have been filed by third parties against the Company in the normal course of business. Based on the legal advice from the independent legal advisor, the Company's management expects a favourable outcome of these claims and no provision is required to be made in these financial statements unless already recorded.
- b) As at 31 December 2022, the Company has maintained a margin deposit of SR 0.38 million with a local bank in respect of a guarantee issued in favour of ZATCA.
- c) The Board of Directors has authorised future capital expenditure, amounting to SR 5.2 million (31 December 2022: SR 4.5 million) in connection with leasehold improvements and construction under progress.
- d) The Company issued a corporate guarantee on behalf of a related party in 2019, and it has an outstanding amount of SR 84.2 million (31 December 2022: SR 93.2 million). The related party simultaneously issued a back-to-back corporate guarantee to the Company. This amount is settled and reduced on semi-annual basis and is due for expiration by the respective related party on 8 May 2027.

27. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

The Company's objectives when managing capital is to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

The Capital Market Authority (CMA) has issued Prudential Regulations (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under Pillar I.

The CMA issued amendments to the Prudential Rules that came into effect on 1 April 2023 (corresponding to 10 Ramadhan 1444H). The requirements for Capital Adequacy as per the latest amendment differ from the prior requirements. Accordingly, the Company has calculated its minimum capital required and capital adequacy ratios for the year ended 2022 and the year ended 2023 as follows:

	<i>31 December 2023 SR '000</i>
Capital base	
Tier-1 capital	1,096,312
Tier-2 capital	-
Total capital base	1,096,312
Minimum capital requirement	
Credit risk	7,362,599
Market risk	274
Operational risk	441,074
Concentration risk	1,400,690
Total minimum capital required	9,204,637
Capital Adequacy Ratio	
Tier 1 ratio	11.91%
Surplus in capital	359,941

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2023

27. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO (continued)

	31 December 2022 SR '000
Capital base	
Tier-1 capital	1,038,267
Tier-2 capital	-
Total capital base	1,038,267
Minimum capital requirement	
Credit risk	823,075
Market risk	179
Operational risk	35,286
Total minimum capital required	858,540
Capital Adequacy Ratio	
Total capital ratio (time)	1.21
Surplus in capital	179,727

28. INVESTMENT PROPERTY

Investment property comprised of land and cost improvement amounting to SR 147.5 million (2022: Same).

In previous years, the Company received property as a result of distribution of the assets by an investee entity. The property is carried at cost of SR 147,538 thousand. The fair value of the property valued on 31 December 2023 was SR 153,940 thousand (31 December 2022: SR 149,112 thousand). The property is registered in the name of "Alfuras Almustadama Real Estate Company" which has provided an undertaking that property is held by it on behalf of the Company.

The fair value of the Company's investment properties has been arrived on the basis of the valuation exercise carried out by management's independent external consultant namely "Abaad for Real Estate Valuations" (2022: "Abaad for Real Estate Valuations"), who holds recognised relevant professional qualification and have recent experience in the location of the property owned by the Company and is accredited by Taqueem (Saudi Authority for Accredited Valuers). The valuation methodology conforms to International Valuation Standards. The fair value of the land was determined based on the market comparable approach that reflects recent transaction or market prices for similar properties. Furthermore, the cost improvement represents the actual cost incurred on the site.

Under the comparable market approach, the Valuation Experts obtained land prices in the neighbouring districts and adjusted them for difference in specification of the Company's properties. Such values are based on significant unobservable inputs and the fair value measurement was classified as Level 3.

At the reporting date, the investments property amounting to SR 147.5 million (2022: SR 147.5 million) is pledged against Sharia Compliant borrowings (note 13).

As at the reporting date, a 5% change in fair value of the comparable would have increase/decrease the fair value of the investment property by SR 5 million (2022: SR 5 million).

29. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing profit for the year by the weighted average number of ordinary shares in issue outstanding during the year (note 17).

The diluted EPS is same as the basic EPS as the Company does not have any dilutive instruments in issue.

30. COMPARATIVE FIGURES

Certain prior year amounts have been reclassified to conform to the current year presentation. However, there was no impact of such reclassifications on the statement of profit or loss and other comprehensive income, statement of changes in shareholder's equity and statement of cash flows of the Company.

31. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 21 March 2024 (corresponding to 11 Ramadan 1445).