

**INVESTCORP SAUDI ARABIA  
FINANCIAL INVESTMENTS COMPANY  
(A CLOSED JOINT STOCK COMPANY  
OWNED BY ONE PERSON)**

**FINANCIAL STATEMENTS**

**30 JUNE 2020**

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

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FINANCIAL STATEMENTS

30 June 2020

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## **INDEPENDENT AUDITOR'S REPORT**

**To the Owner of Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)**

### **Opinion**

We have audited the financial statements of Investcorp Saudi Arabia Financial Investments Company (A Closed Joint Stock Company Owned by One Person) (the "Company"), which comprise the statement of financial position as at 30 June 2020, and the statement of comprehensive income, statement of changes in owner's equity and statement of cash flows for the year ended 30 June 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2020, 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 Certified Public Accountants.

### **Basis for Opinion**

We conducted our audit in accordance with the 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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 Certified Public Accountants and the provisions of Companies' Law and the Company's By-Laws, 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.

## **INDEPENDENT AUDITOR'S REPORT**

**To the Owner of Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person) (continued)**

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)**

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.

As part of an audit in accordance with the 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.

## INDEPENDENT AUDITOR'S REPORT

To the Owner of Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person) (continued)

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

- 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



Fahad M. Al-Toaimi  
Certified Public Accountant  
Registration No. 354

Riyadh: 12 Safar 1442H  
(29 September 2020)



Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	2020 SR	2019 SR
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Right-of-use asset	4	2,810,410	-
Deferred tax assets	12	226,215	587,783
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,036,625</b>	<b>587,783</b>
<b>CURRENT ASSETS</b>			
Amounts due from related parties	5	10,813,058	1,736,602
Prepayments and other receivables	6	518,882	1,037,889
Cash and cash equivalents	7	56,063,325	63,990,968
<b>TOTAL CURRENT ASSETS</b>		<b>67,395,265</b>	<b>66,765,459</b>
<b>TOTAL ASSETS</b>		<b>70,431,890</b>	<b>67,353,242</b>
<b>OWNER/SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>OWNER/SHAREHOLDERS' EQUITY</b>			
Share capital	8	55,876,000	55,876,000
Statutory reserve	9	807,550	698,291
Actuarial gain on employee defined benefit liabilities	10	167,722	167,722
Retained earnings		1,394,241	2,074,628
<b>TOTAL OWNER/SHAREHOLDERS' EQUITY</b>		<b>58,245,513</b>	<b>58,816,641</b>
<b>NON-CURRENT LIABILITIES</b>			
Employee defined benefit liabilities	10	-	2,089,000
Lease liabilities	4	1,191,000	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,191,000</b>	<b>2,089,000</b>
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other payables	11	8,257,881	5,263,475
Zakat and income tax	12	1,589,066	1,184,126
Lease liabilities	4	1,148,430	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>10,995,377</b>	<b>6,447,601</b>
<b>TOTAL LIABILITIES</b>		<b>12,186,377</b>	<b>8,536,601</b>
<b>TOTAL OWNER/SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>70,431,890</b>	<b>67,353,242</b>

For  
Chairman of the Board

Chief Executive Officer

Finance Manager

The accompanying notes 1 to 19 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	2020 SR	2019 SR
<b>REVENUE</b>			
Placement fees	5	13,422,722	7,918,563
Client relationship maintenance fees	5	7,574,922	10,425,667
Management fees	5	1,079,682	1,078,197
<b>TOTAL REVENUE</b>		<b>22,077,326</b>	<b>19,422,427</b>
<b>EXPENSES</b>			
Employees cost		(12,355,056)	(12,388,893)
Depreciation	4	(1,052,207)	-
Rent and premises		(119,805)	(1,043,918)
Other expenses	13	(7,120,009)	(6,048,744)
<b>TOTAL EXPENSES</b>		<b>(20,647,077)</b>	<b>(19,481,555)</b>
<b>INCOME (LOSS) FROM MAIN OPERATIONS</b>		<b>1,430,249</b>	<b>(59,128)</b>
Finance income	5	1,065,478	1,426,345
Finance charges	4	(73,638)	-
Other income		22,139	4,015
<b>INCOME BEFORE ZAKAT AND INCOME TAX</b>		<b>2,444,228</b>	<b>1,371,232</b>
Zakat	12.1	(225,510)	(272,841)
Income tax	12.2	(1,126,124)	(180,649)
<b>NET INCOME FOR THE YEAR</b>		<b>1,092,594</b>	<b>917,742</b>
<b>OTHER COMPREHENSIVE INCOME/ (LOSS)</b>			
<i>Items that will not be reclassified subsequently to profit or loss, net of deferred tax:</i>			
Re-measurement of employee defined benefit liabilities	10	-	(37,549)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,092,594</b>	<b>880,193</b>

The accompanying notes 1 to 19 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

STATEMENT OF CHANGES IN OWNER/SHAREHOLDERS' EQUITY

For the year ended 30 June 2020

	Share capital SR	Statutory reserve SR	Retained earnings SR	Actuarial gain on employee defined benefit liabilities SR	Total SR
Balance at 1 July 2018	55,876,000	606,517	1,248,660	205,271	57,936,448
Net income for the year	-	-	917,742	-	917,742
Other comprehensive loss for the year	-	-	-	(37,549)	(37,549)
Total comprehensive income for the year	-	-	917,742	(37,549)	880,193
Transfer to statutory reserve	-	91,774	(91,774)	-	-
Balance at 30 June 2019	55,876,000	698,291	2,074,628	167,722	58,816,641
Restatement arising from IFRS 16 adoption (note 2.2)	-	-	410,906	-	410,906
Balance at 1 July 2019	55,876,000	698,291	2,485,534	167,72	59,227,547
Net income for the year	-	-	1,092,594	-	1,092,594
Other comprehensive loss for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	1,092,594	-	1,092,594
Transfer to statutory reserve	-	109,259	(109,259)	-	-
Dividends (note 17)	-	-	(2,074,628)	-	(2,074,628)
<b>Balance at 30 June 2020</b>	<b>55,876,000</b>	<b>807,550</b>	<b>1,394,241</b>	<b>167,722</b>	<b>58,245,513</b>

The accompanying notes 1 to 19 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

STATEMENT OF CASHFLOWS

For the year ended 30 June 2020

	Notes	2020 SR	2019 SR
<b>OPERATING ACTIVITIES</b>			
Income before zakat and income tax		2,444,228	1,371,232
<i>Adjustments for:</i>			
Depreciation	4	1,052,207	-
Provision for employee defined benefit liabilities	10	372,921	395,000
Finance income		(1,065,478)	(1,426,345)
Finance charges	4	73,638	-
		<u>2,877,516</u>	<u>339,887</u>
<i>Changes in operating assets and liabilities:</i>			
Amounts due from related parties		(11,165,456)	(1,135,802)
Prepayments and other receivables		519,007	(348,428)
Accrued expenses and other payables		2,994,406	968,293
		<u>(4,774,527)</u>	<u>(176,050)</u>
Cash used in operations		(4,774,527)	(176,050)
Employee defined benefit liabilities paid		(372,921)	(25,000)
Finance income received		1,065,478	1,426,345
Zakat and income tax paid		(585,126)	(480,699)
		<u>(4,667,096)</u>	<u>744,596</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(2,074,628)	-
Payment of principal portion of lease liabilities		(1,185,919)	-
		<u>(3,260,547)</u>	<u>-</u>
Cash used in financing activities		(3,260,547)	-
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(7,927,643)</b>	<b>744,596</b>
Cash and cash equivalents at the beginning of the year		63,990,968	63,246,372
<b>Cash and cash equivalents at the end of the year</b>		<b>56,063,325</b>	<b>63,990,968</b>
<b>Non-cash transaction:</b>			
Right of use asset and lease liability		3,451,711	-
Transfer of property and equipment to a related party	5	-	52,929

The accompanying notes 1 to 19 form an integral part of these financial statements.

# Investcorp Saudi Arabia Financial Investments Company (A Closed Joint Stock Company Owned by One Person)

## NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2020

### 1. ACTIVITIES

Investcorp Saudi Arabia Financial Investments Company (the “Company”) is a Closed joint stock company owned by one person registered in Riyadh, Saudi Arabia under commercial registration number 1010254275 dated 1 Sha’aban 1429H (corresponding to 3 August 2008) and licensed by the Capital Market Authority (“CMA”) under license number 07088-36 dated 4 Dhul-Qadah 1428H (corresponding to 9 November 2007). The Company was authorised to commence business via letter no 1227/6 dated 12 Rabi Al Awal 1430H (corresponding to 9 March 2009). The objectives of the Company are to engage in investment management, investment advisory, investment placement arranging and custodial services.

During the year ended 30 June 2020, the shareholders resolved to transfer 100% ownership of the Company to Investcorp S.A. All the legal formalities in relation to transfer of the Company’s ownership were completed during the year ended 30 June 2020. Accordingly, the Company is owned 100% by non-GCC shareholder (i.e. Investcorp S.A. – the “Owner”) (2019: 12.217% by GCC shareholders and 87.783% by non-GCC shareholders, collectively “the Company”).

The registered address of the Company is Al Faisaliah Tower, 29th floor, P.O. Box 61992, Riyadh 11575, Kingdom of Saudi Arabia

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia (“KSA”) and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively, referred to as “IFRS as endorsed in KSA”).

The financial statements have been prepared on the historical cost basis. The financial statements are presented in Saudi Riyals (SR), which is the Company’s functional currency.

#### 2.2 Changes in accounting policies and disclosures

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. The nature and the impact of each new standard or amendment is described below:

##### **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

The Company has adopted IFRS 16 from its mandatory adoption date using the modified retrospective transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives have not been restated. The Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Changes in accounting policies and disclosures (continued)**

**IFRS 16 Leases (continued)**

The Company also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- restoration costs for most the leases were considered to be negligible, except where reasonable information was available to assess and include such costs in determining lease liabilities; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Impact of the adoption of IFRS 16 on the line items of statement of financial position of the Company as at 1 July 2019 is as follows:

	SR
<b>ASSETS</b>	
Right-of-use assets	3,862,617
<b>TOTAL ASSETS</b>	<b>3,862,617</b>
<b>SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	
<b>SHAREHOLDERS' EQUITY</b>	
Retained earnings	410,906
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>410,906</b>
<b>LIABILITIES</b>	
Short-term lease liabilities	1,112,281
Long-term lease liabilities	2,339,430
<b>TOTAL LIABILITIES</b>	<b>3,451,711</b>
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>3,862,617</b>

The lease liability as at 1 July 2019 can be reconciled with the operating lease commitment as of 30 June 2019, as follows:

	SR
Operating lease commitments as at 30 June 2019	3,557,520
Incremental borrowing rate as at 1 July 2019	3.25%
Discounted operating lease commitments as at 1 July 2019	3,451,711

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

This IFRIC addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions and determined that it is probable that its tax treatments will be accepted by the taxation authorities. The adoption of this clarification does not have any material impact on the financial statements during the year.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant accounting policies**

The significant accounting policies adopted by the Company in preparing the financial statements are applied consistently as follows:

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents 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. A liability is classified as 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.

***Property and equipment***

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Office equipment	3 to 6 years
Office furniture and fixtures	5 to 6 years
Computer hardware and software	6 years
Leasehold improvements	6 years or the term of the lease, whichever the shorter

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.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in profit or loss as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no future benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the profit or loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial period end, and adjusted prospectively if appropriate.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant accounting policies (continued)**

***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.

***i) 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). 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 the lease term and the estimated useful lives of the assets.

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.

***ii) Lease liabilities***

Lease liabilities include, if applicable, the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

***iii) 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). Low-value assets are items that do not meet the Company's capitalisation threshold and are considered to be insignificant for the statement of financial position of the Company as a whole. 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.

***Cash and cash equivalents***

Cash and cash equivalents in the statement of financial position comprise cash in hand, bank balances and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

***Financial instruments - initial recognition and subsequent measurement***

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, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

Investcorp Saudi Arabia Financial Investments Company  
(A Closed Joint Stock Company Owned by One Person)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant accounting policies (continued)**

*Financial instruments - initial recognition and subsequent measurement (continued)*

*i. Financial assets (continued)*

*Initial recognition and measurement (continued)*

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flows characteristics and the Company's business model for managing them. 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. Transaction costs relating to financial assets classified at fair value through profit or loss is charged to profit or loss.

In order for a financial asset to be classified and subsequently measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' 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.

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 recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include bank balances (including term deposits) and due from related parties.

*Derecognition of financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized 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 the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes 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.

*Impairment of financial assets*

The Company recognizes an allowance for expected credit losses ("ECL") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant accounting policies (continued)**

*Financial instruments - initial recognition and subsequent measurement (continued)*

*i. Financial assets (continued)*

*Impairment of financial assets (continued)*

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset in default when contractual payments are 90 days past due. 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.

*ii Financial liabilities*

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or amortized cost, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of financial liabilities at fair value through profit or loss, net of directly attributable transaction costs. Transaction costs relating to financial liabilities at fair value through profit or loss is charged to profit or loss.

The Company's financial liabilities include trade and other payables.

*Subsequent measurement*

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

*a) Financial liabilities at amortized cost*

This is the category most relevant to the Company. After initial recognition these are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in profit or loss.

This category applies to trade and other payables.

*Derecognition of financial liabilities*

A financial liability is derecognized 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*Offsetting of financial instruments*

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant accounting policies (continued)**

***Fair value of financial instruments***

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:

- a) In the principal market for the asset or liability, or
- b) 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 assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

***Provisions***

Provisions are recognized 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.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant accounting policies (continued)**

***Employee benefits***

**Employee defined benefit liabilities**

The Company operates a defined benefit plan, which requires the Company to make contributions to a separately administered fund by the Company. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period by the plan.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation in the statement of comprehensive income in the relevant line items:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

**Short-term employee benefits**

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and air tickets that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. The liability is recorded at the undiscounted amount of the benefits expected to be paid in exchange for that service.

***Statutory reserve***

In accordance with Saudi Arabian Regulations for Companies and the Company's By-Laws, the Company must set aside 10% of net income in each year until it has built up a reserve equal to 30% of the capital. This reserve is not available for distribution.

***Zakat and income tax***

The Company is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accrual basis and are charged to profit or loss. Zakat charge is computed on the zakat base. Income tax is computed on adjusted net income. Difference, if any, resulting from final assessment are adjusted in the year of their finalization.

***Deferred tax***

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant accounting policies (continued)**

***Deferred tax (continued)***

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

***Foreign currencies***

Transactions in foreign currencies are initially recorded by the Company at the currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

***Revenue recognition***

The Company recognizes revenue from management fees, placement fees and client relationship maintenance fees. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of service to a customer.

Revenue from placement fees is recognized as a performance obligation satisfied at a point in time upon subscription of the investor to the investment. Revenue relating to client relationship maintenance fees and management fees are recognized as a performance satisfied over a period of time over the related service period.

The Company recognizes a receivable when the services have been performed as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent low levels of returns over previous years.

***Value Added Tax (VAT)***

Revenue, expenses and assets are recognized at amounts net of value added tax except:

- where VAT incurred on purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense items, as applicable.
- where receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**3. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

The preparation of the financial statements requires management to make estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

***Judgements***

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

*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.

The Company has lease contract that 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 (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

**4. RIGHT-OF-USE ASSET AND LEASE LIABILITY**

Right-of-use assets consist of rented office premises. The carrying amounts of right-of-use asset recognized and depreciated over the lease term and the movements during the year are as follows:

	2020 SR
At the beginning of the year (note 2.2)	3,862,617
Depreciation charge for the year	(1,052,207)
At the end of the year	<u>2,810,410</u>

The carrying amount of the lease liability and the movements during the year is as follows:

	2020 SR
At the beginning of the year (note 2.2)	3,451,711
Accretion of special commission expense	73,638
Payments during the year	(1,185,919)
At the end of the year	<u>2,339,430</u>
Current portion of the lease liability	<u>1,148,430</u>
Non-current portion of the lease liability	<u>1,191,000</u>

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**5. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent owner, major shareholders (2019), directors and key management personnel of the Company, and entities controlled or significantly influences by such parties. List of the related parties of the Company is as follows:

<i>Name of related party</i>	<i>Nature of relationship</i>
Investcorp Holdings B.S.C	Affiliate (2019: a shareholder)
Investcorp S.A.	Owner
Investcorp Management Services Limited	Affiliate (2019: a shareholder)
Investcorp Investment Holding Limited	Affiliate (2019: a shareholder)
Investcorp Funding Limited	Affiliate (2019: a shareholder)
Investcorp Equities Limited	Affiliate (2019: a shareholder)
Saudi Care Sector fund	Fund managed by the Company

The transactions with related parties are as follows:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	
		<b>2020</b> SR	2019 SR
Investcorp Holdings B.S.C.	Expenses paid on behalf of the Company (note 5a)	<b>150,000</b>	150,000
	Finance income received (note 5b)	<b>81,097</b>	1,426,345
	Expense recharges (note 5c)	<b>4,567,829</b>	4,718,550
	Management fee expense (note 5d)	<b>3,750,250</b>	2,477,108
	Transfer of property and equipment	-	52,929
Investcorp Management Services Limited	Placement fee income (note 5e)	<b>13,422,722</b>	7,918,563
	Client relationship maintenance fee income (note 5e)	<b>7,574,922</b>	10,425,667
	Director's remuneration (note 13)	<b>206,144</b>	280,897
Saudi Care Sector Fund	Management fee income (note 5f)	<b>1,079,682</b>	1,078,197

- Expenses comprising salaries of seconded employees are incurred by Investcorp Holdings B.S.C and recharged to the Company.
- The Company placed a time deposit of SR 47,895,979 (2019: SR 47,892,216) which was matured on 21 July 2019 and moved out to a local bank. The finance income received during the year was SR 81,097 (2019: SR 1,426,345). The time deposit yielded special commission at market rates.
- Investcorp Holdings B.S.C. pays on behalf of the Company for employee bonuses and relationship manager's travel expenses. On a quarterly basis, these payables are settled.
- Investcorp Holdings B.S.C. shall charge the Company for finance support inclusive of certain services for corporate governance, accounting, office administrative services including HR support and IT support services.
- As per the agreement between the Company and Investcorp Management Services Limited ("IMSL"), the latter will pay a fee for any investments arranged and maintained by the Company. The Company has sourced investments in Saudi Arabia with a total value of SR 1,508,349,336 (2019: SR 935,890,814) with IMSL during the year.
- The Company provides management services to Saudi Care Sector Fund. The Fund will pay the fund manager an annual management fee as follows:
  - During the Investment Period, at an annual rate of 2% calculated on the aggregate subscription amounts.
  - After the Investment Period, at an annual rate of 2% calculated based on carrying value of investments prior to commencement of the semi-annual period to which management fees relates.

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**5. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

The breakdown of amounts due from related parties are as follows:

	2020 SR	2019 SR
Investcorp Holdings B.S.C	8,152,137	298,021
Saudi Care Sector Fund	2,518,263	1,438,581
Investcorp Management Service Limited	142,658	-
	<b>10,813,058</b>	<b>1,736,602</b>

The management has conducted a review for allowance for expected credit losses as required under IFRS 9 and based on such assessment, the management believes that there is no need for any significant impairment loss against the carrying value of the amounts due from related parties.

The breakdown of amounts due to related party is as follows:

	2020 SR	2019 SR
Investcorp Holdings B.S.C (note 11)	6,642,457	4,718,550

**6. PREPAYMENTS AND OTHER RECEIVABLES**

	2020 SR	2019 SR
Prepaid expenses	39,689	787,110
VAT receivable	251,424	151,959
Accrued commission income	128,949	-
Security deposit	98,820	98,820
	<b>518,882</b>	<b>1,037,889</b>

**7. CASH AND CASH EQUIVALENTS**

	2020 SR	2019 SR
Cash in hand	4,766	1,430
Bank balances	795,019	16,097,322
Short-term time deposits	55,263,540	47,892,216
	<b>56,063,325</b>	<b>63,990,968</b>

Short-term time deposits are made for periods of one to three months and earn interest at the respective short-term deposit rates.

The management has conducted a review for allowance for expected credit losses as required under IFRS 9 and based on such assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash equivalents.

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**8. SHARE CAPITAL**

The Company's share capital amounts to SR 55,876,000 divided into 5,587,600 shares (2019: 5,587,600 shares) of SR 10 each. Share capital of the Company is distributed as follows:

	Ownership %		2020	2019
	2020	2019	SR	SR
Investcorp Holdings B.S.C	-	96%	-	53,640,960
Investcorp Funding Limited	-	1%	-	558,760
Investcorp Management Services Limited	-	1%	-	558,760
Investcorp Investment Holding Limited	-	1%	-	558,760
Investcorp Equities Limited	-	1%	-	558,760
Investcorp S.A.	<b>100%</b>	-	<b>55,876,000</b>	-
	<b>100%</b>	100%	<b>55,876,000</b>	55,876,000

**9. STATUTORY RESERVE**

As required by Saudi Arabian Companies' Law and the Company's By-Laws, the Company must set aside 10% of its income before zakat and income taxes after deducting losses brought forward in each year until it has built up a reserve equal to 30% of the share capital. This reserve is not available for distribution.

**10. EMPLOYEE DEFINED BENEFIT LIABILITIES**

During the year the Company has entered into an Employment Benefit Trust, Investment Management and Administration Service Agreement with Peget-Brown Trust Company Limited (A Cayman Island trust company) (the "Trustee") through its affiliates whereby, the Company will settle funds in a Trust on an ongoing basis in respect of its statutory and contractual obligations to make payments for its employees for their end of service benefits. These funds will be applied by the Trustee based on the terms agreed.

During the year, the Company has assessed employee end of service benefit liabilities and charged an amount of SR 372,921 to the statement of income as service and interest cost.

As of 30 June 2020, balance in relation to employee defined benefit liabilities amounted SAR 2,461,921 and the fair value of the plan assets was also equivalent to the employee defined benefit liabilities. Accordingly, the net defined benefit liability was nil as at 30 June 2020.

**11. ACCRUED EXPENSES AND OTHER PAYABLES**

	2020	2019
	SR	SR
Payable to a related party (note 5)	<b>6,642,457</b>	4,718,550
Accrued expenses	<b>1,615,424</b>	544,925
	<b>8,257,881</b>	5,263,475

Investcorp Saudi Arabia Financial Investments Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**12. ZAKAT AND INCOME TAX**

**12.1 Zakat**

The Zakat charge for the year consists of the following:

	2020 SR	2019 SR
Provision for the year	225,510	273,913
Adjustments relating to prior year	-	(1,072)
Charge for the year	<u>225,510</u>	<u>272,841</u>

The provision for the year is based on the following:

	2020 SR	2019 SR
Equity	8,275,950	9,939,346
Opening provisions and other adjustments	332,147	992,846
Book value of long term assets	(399,016)	(247,199)
	<u>8,209,081</u>	<u>10,684,993</u>
Income subject to Zakat for the year	556,237	271,518
Zakat base	<u>8,765,318</u>	<u>10,956,511</u>

The differences between the financial and results subject to Zakat are mainly due to provisions which are not allowed in the calculation of income subject to Zakat.

Movements in the zakat provision were as follows:

	2020 SR	2019 SR
At the beginning of the year	279,776	257,335
Charge for the year	225,510	272,841
Payments during the year	(257,819)	(250,400)
At the end of the year	<u>247,467</u>	<u>279,776</u>

**12.2 Income tax**

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

	2020 SR	2019 SR
Provision for the year	764,556	261,111
Adjustments relating to prior year	-	(43,897)
Charge for the year	<u>764,556</u>	<u>217,214</u>
Deferred tax – (income)/expense (note 12.4)	361,568	(36,565)
	<u>1,126,124</u>	<u>180,649</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**12. ZAKAT AND INCOME TAX (continued)**

**12.2 Income tax (continued)**

Movements in the income tax provision were as follows:

	2020 SR	2019 SR
At the beginning of the year	904,350	917,435
Charge for the year	764,556	217,214
Payments during the year	(327,307)	(230,299)
At the end of the year	<u>1,341,599</u>	<u>904,350</u>

**12.3 Status of assessments**

The Company had settled the tax/zakat assessments for the years 2009 through 2014 with the GAZT. The Company had filed its zakat and income tax returns for the years ended 30 June 2015 through 2019 which have not yet been finalized by GAZT.

**12.4 Deferred tax**

Movements in the deferred tax were as follows:

	2020 SR	2019 SR
At the beginning of the year	587,783	543,767
Change during the year recognized in profit or loss (note 12.2)	(361,568)	36,565
Change during the year recognized in OCI related to actuarial gain/loss	-	7,451
At the end of the year	<u>226,215</u>	<u>587,783</u>

The components of deferred taxes are summarized as follows:

	2020 SR	2019 SR
Accelerated depreciation for accounting purposes	226,215	241,914
Provision for employee defined benefit liabilities	-	345,869
	<u>226,215</u>	<u>587,783</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**13. OTHER EXPENSES**

	2020 SR	2019 SR
Management fee (note 5)	3,750,250	2,477,108
Withholding tax	1,100,621	416,723
Travel & business development	1,066,193	1,578,722
Professional fees	435,393	499,470
Directors' remuneration (note 5)	206,144	280,897
Communication expenses	199,678	271,084
Government fees	192,182	171,907
Others	169,548	352,833
	<b>7,120,009</b>	<b>6,048,744</b>

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents and due from related parties. Financial liabilities consists of payable to a shareholder. The fair values of the financial instruments of the Company as at the reporting date are not materially different from their carrying values. These are all classified within level 2 of the fair value hierarchy.

**15. RISK MANAGEMENT**

The Company is exposed to the following risks. The Company's senior management oversees the management of these risks.

*Foreign exchange risk*

Foreign currency risk is the risk that the fair value or cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The functional and presentation currency of the Company is Saudi Riyals. The Company is not exposed to any significant currency risk as most of its transactions are denominated in either Saudi Riyals or US Dollars and both the currencies are currently on a fixed parity to each other.

*Credit risk*

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash equivalents and due from related parties.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

With respect to credit risk arising from the financial assets of the Company, including bank balances, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**15. RISK MANAGEMENT (continued)**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed in the table below.

	2020 SR	2019 SR
Bank balances	795,019	16,097,322
Short-term time deposits	55,263,540	47,892,216
Due from related parties	10,813,058	1,736,602
	<b>66,871,617</b>	<b>65,726,140</b>

*Bank balances*

Credit risk from balances with banks is managed by the management in accordance with the Company's policy. Counterparty credit limits are reviewed and updated throughout the year.

*Due from related parties*

These balances include receivables from related parties. Based on past experience of the Company, balances with related parties are being settled regularly and there is no history of significant write-off of receivables from related parties.

***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company is not exposed to significant liquidity risk. Deposits are generally placed for a period of one to three months to manage the Company's liquidity requirements. All liabilities on the Company's statement of financial position, other than employees' defined benefit liabilities, are contractually payable on a current basis.

***Capital management***

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the equity balance. The Company's overall strategy remains unchanged from the previous year. The capital structure of the Company consists of equity comprising share capital, statutory reserve, actuarial gain on employee defined benefit liabilities and retained earnings.

***Business and operational risk***

The Company's operations, cash flows and financial condition could be negatively affected due to the following:

- if employees are kept quarantined for extended period as the result of their exposure to Novel Coronavirus (COVID 19), this could result in disruption of operations and impact on economic activity
- similarly, continuing travel restrictions or operational issues resulting from the rapid spread of COVID 19 in parts of the world in which the Company has significant operations may have a material adverse effect on the Company's business and results of operations.
- continued volatility in oil prices could have an impact, including reduced government spending in the primary economy in which the Company operates in.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**16. CAPITAL REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO**

The capital base, minimum capital requirement and capital adequacy ratio of the Company as per the CMA's Prudential Rules are as follows:

	2020 SR	2019 SR
<b>Capital base:</b>		
Tier 1 capital	<b>58,019,298</b>	58,816,641
Total capital base	<b>58,019,298</b>	58,816,641
<b>Minimum capital requirement:</b>		
Credit risk	<b>5,995,731</b>	4,960,802
Operational risk	<b>5,161,769</b>	4,870,389
Total minimum capital required	<b>11,157,500</b>	9,831,191
<b>Capital adequacy ratio:</b>		
Total capital ratio (times)	<b>5.20</b>	5.98
Tier 1 capital ratio (times)	<b>5.20</b>	5.98
Surplus in the capital	<b>46,861,798</b>	48,985,450

- The capital base consists of Tier 1 capital (which includes share capital and audited retained earnings). The Company does not have Tier 2 capital as per article 4 and 5 of the Prudential Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules.
- The Company manages its capital base in light of Pillar I and Pillar II of the Prudential Rules - the capital base should not be less than the minimum capital requirement.
- The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.
- The minimum capital base required as per Article 6(g) of the Authorized Persons regulations issued by the Capital Market Authority in the Kingdom of Saudi Arabia in respect of the licensed activities of the Company is SR 50 million.
- The Company is required to disclose on an annual basis certain information as per Pillar III of the Prudential Rules for public on the Company's website. However, these are not subject to review or audit by the external auditors of the Company.

**17. DIVIDENDS**

During the year a proposed dividend of SR 2,074,628 by the board of directors was approved by the shareholders of the Company on 19 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2020

**18. IMPACT OF COVID-19**

The outbreak of COVID 19 continues to progress and evolve. The extent and duration of its impact remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus, intensity of second wave and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

**19. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors of the Company on 11 Safar 1442H (corresponding to 28 September 2020).