

**INVESTCORP SAUDI ARABIA
FINANCIAL INVESTMENTS COMPANY
(A CLOSED JOINT STOCK COMPANY)**

FINANCIAL STATEMENTS

30 JUNE 2019

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

FINANCIAL STATEMENTS

30 June 2019

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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)**

Opinion

We have audited the financial statements of Investcorp Saudi Arabia Financial Investments Company (A Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 30 June 2019, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year ended 30 June 2019, 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 2019, 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 Shareholders of Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company) (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

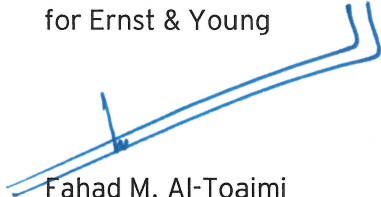
To the Shareholders of Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company) (continued)

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: 30 Muharram 1441H
(29 September 2019)

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 SR	30 June 2018 (Note 16) SR	1 July 2017 (Note 16) SR
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	5	-	52,929	353,507
Deferred tax assets	13	587,783	543,767	542,397
TOTAL NON-CURRENT ASSETS		587,783	596,696	895,904
CURRENT ASSETS				
Amounts due from related parties	6	1,736,602	547,871	74,068
Prepayments and other receivables	7	1,037,889	689,461	869,962
Cash and cash equivalents	8	63,990,968	63,246,372	61,616,027
TOTAL CURRENT ASSETS		66,765,459	64,483,704	62,560,057
TOTAL ASSETS		67,353,242	65,080,400	63,455,961
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	9	55,876,000	55,876,000	55,876,000
Statutory reserve	10	698,291	606,517	496,846
Actuarial gain on employee defined benefit liabilities	11	167,722	205,271	-
Retained earnings		2,074,628	1,248,660	793,027
TOTAL SHAREHOLDERS' EQUITY		58,816,641	57,936,448	57,165,873
NON-CURRENT LIABILITY				
Employee defined benefit liabilities	11	2,089,000	1,674,000	1,825,000
CURRENT LIABILITIES				
Accrued expenses and other payables	12	5,263,475	4,295,182	3,094,649
Zakat and income tax	13	1,184,126	1,174,770	1,370,439
TOTAL CURRENT LIABILITIES		6,447,601	5,469,952	4,465,088
TOTAL LIABILITIES		8,536,601	7,143,952	6,290,088
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		67,353,242	65,080,400	63,455,961


Chairman of the Board


Chief Executive Officer


Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	30 June 2019 SR	30 June 2018 (Note 16) SR
REVENUE			
Placement fees	6	7,918,563	10,561,942
Client relationship maintenance fees	6	10,425,667	8,522,293
Management fees	6	1,078,197	360,384
TOTAL REVENUE		19,422,427	19,444,619
EXPENSES			
Employees cost		(12,388,893)	(14,334,942)
Rent and premises		(1,043,918)	(1,214,028)
Other expenses	14	(6,048,744)	(3,695,299)
TOTAL EXPENSES		(19,481,555)	(19,244,269)
(LOSS) INCOME FROM MAIN OPERATIONS		(59,128)	200,350
Finance income	6	1,426,345	721,600
Other income	15	4,015	126,923
INCOME BEFORE ZAKAT AND INCOME TAX		1,371,232	1,048,873
Zakat	13.1	(272,841)	(251,472)
Income tax	13.2	(180,649)	(232,097)
NET INCOME FOR THE YEAR		917,742	565,304
OTHER COMPREHENSIVE (LOSS)/ INCOME			
<i>Items that will not be reclassified subsequently to profit or loss, net of deferred tax:</i>			
Re-measurement of employee defined benefit liabilities	11	(37,549)	205,271
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		880,193	770,575

The accompanying notes 1 to 21 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 30 June 2019

	<i>Share capital</i> SR	<i>Statutory reserve</i> SR	<i>Retained earnings</i> SR	<i>Actuarial gain on employee defined benefit liabilities</i> SR	<i>Total</i> SR
Balance at 1 July 2017 (Note 16)	55,876,000	496,846	793,027	-	57,165,873
Net income for the year	-	-	565,304	-	565,304
Other comprehensive income for the year	-	-	-	205,271	205,271
Total comprehensive income for the year	-	-	565,304	205,271	770,575
Transfer to statutory reserve	-	109,671	(109,671)	-	-
Balance at 30 June 2018 (Note 16)	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

The accompanying notes 1 to 21 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Notes	30 June 2019 SR	30 June 2018 SR
OPERATING ACTIVITIES			
Income before zakat and income tax		1,371,232	1,048,873
<i>Adjustments for:</i>			
Depreciation	5	-	356,592
Provision for employee defined benefit liabilities	11	395,000	380,000
Finance income		(1,426,345)	(721,600)
		339,887	1,063,865
<i>Changes in operating assets and liabilities:</i>			
Amounts due from related parties		(1,135,802)	(473,803)
Prepayments and other receivables		(348,428)	180,501
Accrued expenses and other payables		968,293	1,200,533
Cash (used in) generated from operations		(176,050)	1,971,096
Employee defined benefit liabilities paid		(25,000)	(285,000)
Finance income received		1,426,345	721,600
Zakat and income tax paid		(480,699)	(721,337)
Net cash from operating activities		744,596	1,686,359
INVESTING ACTIVITY			
Purchase of property and equipment	5	-	(56,014)
Cash used in investing activity		-	(56,014)
Net increase in cash and cash equivalents		744,596	1,630,345
Cash and cash equivalents at the beginning of the year		63,246,372	61,616,027
Cash and cash equivalents at the end of the year		63,990,968	63,246,372
Non-cash transaction:			
Transfer of property and equipment to a related party	6	52,929	-

The accompanying notes 1 to 21 form an integral part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company (A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2019

1. ACTIVITIES

Investcorp Saudi Arabia Financial Investments Company (the “Company”) is a Saudi joint stock company 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.

The Company is owned 12.217% by GCC shareholders and 87.783% by non-GCC shareholders (2018: 12.217% by GCC shareholders and 87.783% by non-GCC shareholders).

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

2. 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”).

For all the years up to and including the year ended 30 June 2018, the Company prepared its financial statements in accordance with accounting standards issued by SOCPA.

These financial statements for the year ended 30 June 2019 are the first set of financial statements of the Company prepared in accordance with IFRS as endorsed in KSA. Accordingly, IFRS 1 – First time adoption of IFRS as endorsed in KSA has been applied. Refer to note 16 to the financial statements for information on the impacts on the financial statements of the Company as a result of adoption of 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Current versus non-current classification

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.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

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.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

i. Financial assets (continued)

Initial recognition and measurement (continued)

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.

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.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

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.

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.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments (continued)

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.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset or assets, even if that asset is not explicitly specified in an arrangement.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee benefits

Employee defined benefit liabilities

The employee defined benefit liability is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to profit or loss in subsequent periods.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Investcorp Saudi Arabia Financial Investments Company (A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employee defined benefit liabilities (continued)

Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- remeasurements.

The Company presents the first two components of defined benefit costs in profit or loss in relevant line items.

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.

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.

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

At 30 June 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Company plans to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 (as allowed by IFRS 16). 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 plans to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

As at 30 June 2019, management are in the process of determining the impact of IFRS 16 on the financial statements.

4. 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.

Judgments

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

Operating lease commitments - Company as lessee

The Company has entered into lease agreements for a certain property. The Company has determined, based on an evaluation of the terms and conditions of the lease agreement, that the Company will not be able to obtain the ownership by the end of the lease term and so accounts for the lease contracts as operating leases.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 discussed below:

Employee defined benefit liabilities

Employee defined benefit liabilities are determined using an actuarial valuation which requires estimates to be made of the various inputs. These estimates have been disclosed in note 11.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

5. PROPERTY AND EQUIPMENT

	Office equipment SR	Office furniture & fixtures SR	Computer hardware & software SR	Leasehold improvements SR	Total SR
<i>Cost</i>					
At the beginning of the year	28,999	288,990	167,130	2,286,350	2,771,469
Transfer to a related party (note 6)	-	-	(56,010)	-	(56,010)
At the end of the year	-	-	111,120	-	2,715,459
<i>Accumulated depreciation</i>					
At the beginning of the year	28,999	288,990	114,201	2,286,350	2,718,540
Transfer to a related party (note 6)	-	-	(3,081)	-	(3,081)
At end of the year	-	-	111,120	-	2,715,459
<i>Net book amounts:</i>					
At 30 June 2019	-	-	-	-	-
At 30 June 2018	-	-	52,929	-	52,929
	Office equipment SR	Office furniture & fixtures SR	Computer hardware & software SR	Leasehold improvements SR	Total SR
<i>Cost:</i>					
At the beginning of the year	28,999	288,990	111,116	2,286,350	2,715,455
Additions	-	-	56,014	-	56,014
At the end of the year	28,999	288,990	167,130	2,286,350	2,771,469
<i>Accumulated depreciation:</i>					
At the beginning of the year	28,999	222,771	52,471	2,057,707	2,361,948
Charge for the year (note 14)	-	66,219	61,730	228,643	356,592
At end of the year	28,999	288,990	114,201	2,286,350	2,718,540
<i>Net book amounts:</i>					
At 30 June 2018	-	-	52,929	-	52,929
At 1 July 2017	-	66,219	58,645	228,643	353,507

Investcorp Saudi Arabia Financial Investments Company (A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

6. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, 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 Bank B.S.C	Shareholder
Investcorp Management Services Limited	Shareholder
Investcorp Investment Holding Limited	Shareholder
Investcorp Funding Limited	Shareholder
Investcorp Equities Limited	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>	
		30 June 2019 SR	30 June 2018 SR
Investcorp Bank B.S.C.	Expenses paid by shareholders (note 6a)	150,000	150,000
	Finance income received (note 6c)	1,426,345	721,600
	Expense recharges (note 6f)	4,718,550	3,854,163
	Management fee expense (note 6e)	2,477,108	282,603
	Transfer of property and equipment (note 5)	52,929	-
Investcorp Management Services Limited	Placement fee income (note 6b)	7,918,563	10,561,942
	Client relationship maintenance fee income (note 6b)	10,425,667	8,522,293
Services Limited	Director's remuneration (note 12)	280,897	225,015
Saudi Care Sector Fund	Management fee income (note 6d)	1,078,197	360,384

- Expenses comprising salaries of seconded employees are incurred by Investcorp Bank B.S.C, the shareholder, and recharged to the Company. The Company has entered into an agreement with the shareholder, where the shareholder may finance the Company's working capital requirements.
- 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 935,890,814 (30 June 2018: SR 1,197,672,788) with IMSL during the year.
- The Company placed a time deposit of SR 47,892,216 (30 June 2018: SR 46,580,205; 1 July 2017: SR 45,972,024) and a current account of SR 15,807,830 (30 June 2018: SR 16,424,577; 1 July 2017: SR 15,147,719) with the shareholder. The time deposit yields special commission at market rates.
- 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 Bank 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.
- Investcorp Bank B.S.C. pays on behalf of the Company for employee bonuses, relationship manager's travel expenses, and withholding taxes. On a quarterly basis, these payables are settled.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

6. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	30 June 2019 SR	30 June 2018 SR	1 July 2017 SR
Investcorp Bank B.S.C	298,021	187,487	74,068
Saudi Care Sector fund	1,438,581	360,384	-
	<u>1,736,602</u>	<u>547,871</u>	<u>74,068</u>

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 a shareholder is as follows:

	30 June 2019 SR	30 June 2018 SR	1 July 2017 SR
Investcorp Bank B.S.C (note 12)	<u>4,718,550</u>	<u>3,835,461</u>	<u>2,489,099</u>

7. PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2019 SR	30 June 2018 SR	1 July 2017 SR
Prepaid expenses	787,110	523,448	771,142
VAT receivable	151,959	67,193	-
Rent deposit	98,820	98,820	98,820
	<u>1,037,889</u>	<u>689,461</u>	<u>869,962</u>

8. CASH AND CASH EQUIVALENTS

	30 June 2019 SR	30 June 2018 SR	1 July 2017 SR
Cash in hand	1,430	308	2,783
Bank balances	16,097,322	16,665,859	15,641,220
Short-term time deposits	47,892,216	46,580,205	45,972,024
	<u>63,990,968</u>	<u>63,246,372</u>	<u>61,616,027</u>

Bank balances earns interest at floating rates based on daily bank deposit rates. 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
(A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

9. SHARE CAPITAL

The Company's share capital amounts to SR 55,876,000 divided into 5,587,600 shares (30 June 2018 and 1 July 2017: 5,587,600 shares) of SR 10 each. Share capital of the Company is distributed as follows:

	<i>Ownership %</i>	<i>30 June 2019 SR</i>	<i>30 June 2018 SR</i>	<i>1 July 2017 SR</i>
Investcorp Bank B.S.C	96%	53,640,960	53,640,960	53,640,960
Investcorp Funding Limited	1%	558,760	558,760	558,760
Investcorp Management Services Limited	1%	558,760	558,760	558,760
Investcorp Investment Holding Limited	1%	558,760	558,760	558,760
Investcorp Equities Limited	1%	558,760	558,760	558,760
	<u>100%</u>	<u>55,876,000</u>	<u>55,876,000</u>	<u>55,876,000</u>

Subsequent to year end Investcorp Bank B.S.C has converted its license from a wholesale bank to a holding company, being the new name Investcorp Holdings B.S.C.

10. STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies 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.

11. EMPLOYEE DEFINED BENEFIT LIABILITIES

	<i>30 June 2019 SR</i>	<i>30 June 2018 SR</i>
Balance at the beginning of the year	1,674,000	1,825,000
Current service cost	334,000	311,000
Interest cost	61,000	69,000
Actuarial loss/ (gain)	45,000	(246,000)
Paid during the year	(25,000)	(285,000)
Balance at the end of the year	<u>2,089,000</u>	<u>1,674,000</u>

The amounts recognized in the statement of comprehensive income is as follows:

	<i>30 June 2019 SR</i>	<i>30 June 2018 SR</i>
Current service cost	334,000	311,000
Interest cost	61,000	69,000
Charge for the year	<u>395,000</u>	<u>380,000</u>

All movements in the employee defined benefit liabilities are recognized in profit or loss except for the actuarial gain which is recognized in other comprehensive income.

The most recent actuarial valuation was performed by an independent, qualified actuary using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	<i>30 June 2019</i>	<i>30 June 2018</i>	<i>1 July 2017</i>
Discount rate	2.50%	3.70%	3.70%
Rate of salary increases	1.00%	1.00%	1.00%

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

At 30 June 2019

11. EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

Sensitivity analyses

The sensitivity analyses presented below have 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. A positive amount represents an increase in the liability whilst a negative amount represents a decrease in the liability.

	30 June 2019 SR	30 June 2018 SR	1 July 2017 SR
Increase in discount rate of 1.00%	(65,000)	(63,000)	(62,000)
Decrease in discount rate of 1.00%	68,000	66,000	67,000
Increase in rate of salary increase of 1.00%	69,000	67,000	68,000
Decrease in rate of salary increase of 1.00%	(66,000)	(66,000)	(64,000)

12. ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2019 SR	30 June 2018 SR	1 July 2017 SR
Payable to a shareholder (note 6)	4,718,550	3,835,461	2,489,099
Accrued expenses	544,925	459,721	605,550
	<u>5,263,475</u>	<u>4,295,182</u>	<u>3,094,649</u>

13. ZAKAT AND INCOME TAX

13.1 Zakat

The Zakat charge for the year consists of the following:

	30 June 2019 SR	30 June 2018 SR
Provision for the year	273,913	251,472
Adjustments relating to prior year	(1,072)	-
Charge for the year	<u>272,841</u>	<u>251,472</u>

The provision for the year is based on the following:

	30 June 2019 SR	30 June 2018 SR
Equity	9,939,346	9,923,830
Opening provisions and other adjustments	992,846	139,011
Book value of long term assets	(247,199)	(286,347)
	<u>10,684,993</u>	<u>9,776,494</u>
Income subject to Zakat for the year	271,518	282,386
Zakat base	<u>10,956,511</u>	<u>10,058,880</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.

Investcorp Saudi Arabia Financial Investments Company
(A Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

13. ZAKAT AND INCOME TAX (continued)

13.1 Zakat (continued)

Movements in the zakat provision were as follows:

	30 June 2019 SR	30 June 2018 SR
At the beginning of the year	257,335	423,554
Charge for the year	272,841	251,472
Payments during the year	(250,400)	(417,691)
At the end of the year	<u>279,776</u>	<u>257,335</u>

13.2 Income tax

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

	30 June 2019 SR	30 June 2018 SR
Provision for the year	261,111	274,196
Adjustments relating to prior year	(43,897)	-
Charge for the year	217,214	274,196
Deferred tax – (income)/expense (note 13.4)	(36,565)	(42,099)
	<u>180,649</u>	<u>232,097</u>

Movements in the income tax provision were as follows:

	30 June 2019 SR	30 June 2018 SR
At the beginning of the year	917,435	946,885
Charge for the year	217,214	274,196
Payments during the year	(230,299)	(303,646)
At the end of the year	<u>904,350</u>	<u>917,435</u>

13.3 Status of assessments

The Company had submitted the tax/zakat declarations for the years 2009 through 2014 with the GAZT. The GAZT had initially assessed an additional tax/zakat of SR 2.6 million for the years from 2009 to 2014. This is principally due to disallowance of certain salaries and benefits by the GAZT. The Company provided required documentation to GAZT and subsequently GAZT revised the initial assessment resulting in a reduction of the additional tax/zakat liability from SR 2.6 million to SR 0.83 million.

The Company appealed against the revised assessment to the Preliminary Appeal Committee (“PAC”) and an appeal hearing was conducted in May 2016. A ruling was issued 31 August 2016 by PAC on the appeal filed by the Company. The Company has decided to pay the additional income tax (including delay fines) and zakat liability and accordingly has made appropriate provision in the financial statements during the year ended 30 June 2017.

The Company had filed its zakat and income tax returns for the years ended 30 June 2015 through 2018. The assessment has not yet been raised by GAZT.

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

At 30 June 2019

13. ZAKAT AND INCOME TAX (continued)

13.4 Deferred tax

Movements in the deferred tax were as follows:

	30 June 2019 SR	30 June 2018 SR
At the beginning of the year	543,767	542,397
Change during the year recognized in profit or loss (note 13.2)	36,565	42,099
Change during the year recognized in OCI related to actuarial gain/loss	7,451	(40,729)
At the end of the year	<u>587,783</u>	<u>543,767</u>

The components of deferred taxes are summarized as follows:

	30 June 2019 SR	30 June 2018 SR
Accelerated depreciation for accounting purposes	241,914	266,608
Provision for employee defined benefit liabilities	345,869	277,159
	<u>587,783</u>	<u>543,767</u>

14. OTHER EXPENSES

	30 June 2019 SR	30 June 2018 SR
Management fee (note 6)	2,477,108	282,603
Travel & business development	1,578,722	1,534,144
Professional fees	499,470	607,857
Withholding tax	416,723	87,807
Directors' remuneration (note 6)	280,897	225,015
Communication expenses	271,084	268,869
Government fees	171,907	156,941
Depreciation (note 5)	-	356,592
Others	352,833	175,471
	<u>6,048,744</u>	<u>3,695,299</u>

15. OTHER INCOME

	30 June 2019 SR	30 June 2018 SR
Lease income	-	107,250
Other income	4,015	19,673
	<u>4,015</u>	<u>126,923</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

16. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA

16.1 Reconciliation of statement of financial position as at 1 July 2017

	Notes	Balance as per SOCPA SR	IFRS adjustments SR	Balance as per IFRS endorsed in KSA` SR
ASSETS				
NON-CURRENT ASSETS				
Property and equipment		353,507	-	353,507
Deferred tax assets	B	-	542,397	542,397
TOTAL NON-CURRENT ASSETS		353,507	542,397	895,904
CURRENT ASSETS				
Amounts due from related parties		74,068	-	74,068
Prepayments and other receivables		869,962	-	869,962
Cash and cash equivalents		61,616,027	-	61,616,027
TOTAL CURRENT ASSETS		62,560,057	-	62,560,057
TOTAL ASSETS		62,913,564	542,397	63,455,961
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital		55,876,000	-	55,876,000
Statutory reserve		496,846	-	496,846
Retained earnings	A,B	1,268,208	(475,181)	793,027
TOTAL SHAREHOLDERS' EQUITY		57,641,054	(475,181)	57,165,873
NON-CURRENT LIABILITY				
Employee defined benefit liabilities	A	807,422	1,017,578	1,825,000
CURRENT LIABILITIES				
Accrued expenses and other payables		3,094,649	-	3,094,649
Zakat and income tax		1,370,439	-	1,370,439
TOTAL CURRENT LIABILITIES		4,465,088	-	4,465,088
TOTAL LIABILITIES		5,272,510	1,017,578	6,290,088
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		62,913,564	542,397	63,455,961

16.2 Reconciliation of shareholders' equity as at 1 July 2017

	Notes	Share capital SR	Statutory reserve SR	Retained earnings SR	Total SR
Balance as per SOCPA		55,876,000	496,846	1,268,208	57,641,054
IFRS adoption adjustments:					
- Actuarial valuation of employees' benefits	A	-	-	(1,017,578)	(1,017,578)
- Recognition of deferred tax	B	-	-	542,397	542,397
Total adjustment to equity		-	-	(475,181)	(475,181)
Balance as per IFRS as endorsed in KSA		55,876,000	496,846	793,027	57,165,873

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

At 30 June 2019

16. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

16.3 Reconciliation of statement of financial position as at 30 June 2018

	Notes	Balance as per SOCPA SR	IFRS adjustments SR	Balance as per IFRS endorsed in KSA` SR
ASSETS				
NON-CURRENT ASSETS				
Property and equipment		52,929	-	52,929
Deferred tax assets	B	-	543,767	543,767
TOTAL NON-CURRENT ASSETS		52,929	543,767	596,696
CURRENT ASSETS				
Amounts due from related parties		547,871	-	547,871
Prepayments and other receivables		689,461	-	689,461
Cash and cash equivalents		63,246,372	-	63,246,372
TOTAL CURRENT ASSETS		64,483,704	-	64,483,704
TOTAL ASSETS		64,536,633	543,767	65,080,400
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital		55,876,000	-	55,876,000
Statutory reserve		606,517	-	606,517
Actuarial gain on employee defined benefit liabilities	A,B	-	205,271	205,271
Retained earnings	A,B	1,729,582	(480,922)	1,248,660
TOTAL SHAREHOLDERS' EQUITY		58,212,099	(275,651)	57,936,448
NON-CURRENT LIABILITY				
Employee defined benefit liabilities	A	854,582	819,418	1,674,000
CURRENT LIABILITIES				
Accrued expenses and other payables		4,295,182	-	4,295,182
Zakat and income tax		1,174,770	-	1,174,770
TOTAL CURRENT LIABILITIES		5,469,952	-	5,469,952
TOTAL LIABILITIES		6,324,534	819,418	7,143,952
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		64,536,633	543,767	65,080,400

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2019

16. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

16.4 Reconciliation of total comprehensive income as at 30 June 2018

	Notes	Balance as per SOCPA SR	IFRS adjustments/ reclassifications SR	Balance as per IFRS endorsed in KSA SR
REVENUE				
Placement fees		10,561,942	-	10,561,942
Client relationship maintenance fees		8,522,293	-	8,522,293
Management fees		360,384	-	360,384
TOTAL REVENUE		19,444,619	-	19,444,619
EXPENSES				
Employees cost		(14,287,102)	(47,840)	(14,334,942)
Rent and premises		(1,214,028)	-	(1,214,028)
Other expenses		(3,695,299)	-	(3,695,299)
TOTAL EXPENSES		(19,196,429)	(47,840)	(19,244,269)
INCOME FROM MAIN OPERATIONS		248,190	(47,840)	200,350
Finance income		721,600	-	721,600
Other income		126,923	-	126,923
INCOME BEFORE ZAKAT AND INCOME TAX		1,096,713	(47,840)	1,048,873
Zakat	C	-	(251,472)	(251,472)
Income tax	B,C	-	(232,097)	(232,097)
NET INCOME FOR THE YEAR		1,096,713	(531,409)	565,304
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss, net of tax:</i>				
Re-measurement of employee defined benefit liabilities		-	205,271	205,271
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,096,713	(326,138)	770,575

16.5 Reconciliation of shareholders' equity as at 30 June 2018

	Share capital SR	Statutory reserve SR	Retained earnings SR	Actuarial gain on employee defined benefit liabilities SR	Total SR
Balance as per SOCPA	55,876,000	606,517	1,729,582	-	58,212,099
IFRS adoption adjustments:					
- Actuarial valuation of employees' benefits	A	-	(1,065,418)	246,000	(819,418)
- Recognition of deferred tax	B	-	584,496	(40,729)	543,767
Total adjustment to equity	-	-	(480,922)	205,271	(275,651)
Balance as per IFRS as endorsed in KSA	55,876,000	606,517	1,248,660	205,271	57,936,448

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At 30 June 2019

16. IMPACT OF ADOPTION OF IFRS AS ENDORSED IN KSA (continued)

16.6 Notes to the reconciliations

A Actuarial valuation of employees' benefits

Under IFRS as endorsed in KSA, employees' end-of-service benefits are required to be calculated using actuarial valuations. Historically, the Company has calculated these obligations based on the local regulations in KSA at the reporting date without considering expected future service periods of employees, salary increments and discount rates. This change resulted in an increase in the employee defined benefit liabilities and decrease in retained earnings. The actuarial gains resulting from the re-measurement of the employee defined benefit liabilities has been recorded in other comprehensive income.

B Deferred tax

The various transitional adjustments lead to different temporary differences. According to the accounting policies, the Company has to account for such differences. Deferred tax adjustments are recognized in correlation to the underlying transaction either in a separate component of equity.

C Reclassifications

Reclassification of zakat and income tax previously charged to statement of changes in shareholder's equity to statement of comprehensive income to comply with the presentation requirements of IAS 1 Presentation of Financial Statements.

17. 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.

18. 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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At 30 June 2019

18. RISK MANAGEMENT (continued)

Credit risk (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.

	30 June 2019 SR	30 June 2018 SR	1 July 2017 SR
Bank balances	16,097,322	16,665,859	15,641,220
Short-term time deposits	47,892,216	46,580,205	45,972,024
Due from related parties	1,736,602	547,871	74,068
	<u>65,726,140</u>	<u>63,793,935</u>	<u>61,687,312</u>

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.

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19. 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:

	30 June 2019 SR	30 June 2018 SR
Capital base:		
Tier 1 capital	58,816,641	58,212,099
Total capital base	58,816,641	58,212,099
Minimum capital requirement:		
Credit risk	4,960,802	4,806,200
Operational risk	4,870,389	4,799,107
Total minimum capital required	9,831,191	9,605,307
Capital adequacy ratio:		
Total capital ratio (times)	5.98	6.06
Tier 1 capital ratio (times)	5.98	6.06
Surplus in the capital	48,985,450	48,606,792

- 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.

20. SUBSEQUENT EVENTS

A cash dividend of SR 0.371 per share amounting to SR 2,074,628 for the year ended 30 June 2019 has been proposed on 25 September 2019 by the Board of Directors for distribution to shareholders. The proposed cash dividend is subject to the approval of the Ordinary General Assembly in the next meeting.

21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors of the Company on 26 Muharram 1441H (corresponding to 25 September 2019).