Bahrain Mumtalakat Holding Company B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2022

CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2022

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The Board of Bahrain Mumtalakat Holding Company B.S.C. (c) (hereinafter referred to as the "Group") is pleased to present its report together with the audited consolidated financial statements for the year ended 31 December 2022.

Financial highlights

The Group recorded a consolidated net loss of BD 54 million in 2022 compared to a consolidated net profit of BD 329 million in 2021.

While strong operating profits of BD 251 million were recorded in 2022 as compared to BD 345 million in 2021, the net consolidated losses arose from impairment losses of BD 147 million recorded during the year on goodwill of McLaren and General Poultry Company. Impairment losses are non-cash in nature and are driven by conservative future outlook of car sales in McLaren given the challenged macro economic backdrop of supply chain disruptions, higher inflation, rising interest rates and fears of recession that have impacted the luxury automotive industry in general.

The Group's revenue increased by 23% from BD 2.2 billion in 2021 to BD 2.7 billion in 2022. The increase is primarily driven by Alba's all time high production of 1.6 million metric tonnes along with Gulf Air Group's revenue increasing from strong customer demand following the removal of nearly all pandemic-related restrictions around the world.

Alba reported another year of strong operational growth and financial performance with net profits of BD 416 million recorded for the year compared to a net profit of BD 452 million in 2021.

The Group's principal associates, National Bank of Bahrain B.S.C (NBB) and Bahrain Telecommunications Company B.S.C (Beyon) continue to report strong results. The Group's share of profits from Beyon and NBB for 2022 were BD 25.2 million and BD 28.5 million respectively (2021: BD 22.6 million and BD 21.9 million respectively).

The movements in equity attributable to shareholder of the group are as follows:

	BD '000
Balance as at 31 December 2021	2,713,231
Net loss	(115,120)
Other comprehensive income	11,308
Contribution by the shareholder	70,321
Dividend paid to the shareholder	(20,000)
Other movements, net	370
Balance as at 31 December 2022	**2,660,110**

Disclosure forms for the remuneration of members of the board of directors and the executive management in the report of the board of directors

First: Board of directors' remunerations details:

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others	Total	Remunerations of the chairman and BOD	Incentive plans	Others	Total			
First: Non-Executive and Independent Directors:											
1- H.E. Shaikh Salman bin Khalifa Al Khalifa (Chairman)	-	-	-	-	-	-	-	-	-	-	-
2- H.E. Shaikh Mohamed bin Isa Al-Khalifa	15,000	5,500	-	20,500	-	-	-	-	-	20,500	-
3- H.E. Mohamed Bin Thamir Al Kaabi	-	-	-	-	-	-	-	-	-	-	-
4- H.E. Abdulla Adel Fakhro	-	-	-	-	-	-	-	-	-	-	-
5- Mr. Khalid Humaidan	15,000	7,000	-	22,000	-	-	-	-	-	22,000	-
6- Mrs. Elham Hasan	15,000	5,500	-	20,500	-	-	-	-	-	20,500	-
7- Dr. Samer Al Jishi	15,000	5,500	-	20,500	-	-	-	-	-	20,500	-
Second: Non-Executive and non-independent Directors:											
-	-	-	-	-	-	-	-	-	-	-	-
Third: Executive and non-independent Directors:											
1- H.E. Mr. Khaled Alrumaihi (CEO)	-	-	-	-	-	-	-	-	-	-	-
Total	60,000	23,500	-	83,500	-	-	-	-	-	83,500	-

Second: Executive management remunerations details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Remunerations for the top 6 executives, including CEO* and Senior Financial Office	962,496	194,305	-	1,156,801

Note: All amounts stated in Bahraini Dinars.

*** The highest authority in the executive management of the company**
**** The company's highest financial officer**

Dividend to the shareholder

The Company paid BD 20 million as dividend to the shareholder during 2022 (2021: BD 20 million).

Directors

The following is the list of directors who were in office as of the date of this report:

- H.E. Shaikh Salman bin Khalifa Al Khalifa
- H.E. Shaikh Mohamed bin Isa Al-Khalifa
- H.E. Shaikh Abdulla bin Khalifa Al Khalifa (Appointed in May 2023)
- H.E. Mr. Mohamed Bin Thamir Al Kaabi
- H.E. Abdulla Adel Fakhro
- H.E. Khaled Amer Alrumaihi
- Dr. Samer Al Jishi
- Mr. Khalid Humaidan
- Mrs. Elham Hasan

By order of the Board of Directors

Salman Bin Khalifa Al Khalifa Chairman	Elham Hasan Director

8 June 2023

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CR No. 6220

Independent auditors' report

To the Shareholder of

Bahrain Mumtalakat Holding Company B.S.C. (c)
Kingdom of Bahrain

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Mumtalakat Holding Company B.S.C. (c) (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Board of Directors' report set out on page 1.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the consolidated Financial Statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group'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 the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the Board of Directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors 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.

Report on Other Regulatory Requirements

1) As required by the Commercial Companies Law, we report that:
   a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
   b) the financial information contained in the Board of Directors' report is consistent with the consolidated financial statements;
   c) we are not aware of any violations during the year of the Commercial Companies Law or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
   d) satisfactory explanations and information have been provided to us by management in response to all our requests.

2) As required by the Ministry of Industry and Commerce in their letter dated 30 January 2020 in respect of the requirements of Article 8 of Section 2 of Chapter 1 of the Corporate Governance Code, we report that the Company has:

   a) a corporate governance officer; and
   b) a Board approved written guidance and procedures for corporate governance.

KPMG

KPMG Fakhro
Partner Registration Number 83
8 June 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Note	2022 BD '000	2021 BD '000
ASSETS			
Cash and bank balances	3	**276,522**	243,467
Derivative financial instruments	14	**42,225**	8,843
Trade receivables, prepayments and other receivables	4	**397,255**	452,334
Inventories	5	**475,179**	427,564
Investments carried at fair value through statement of income	6	**476,201**	521,058
Investment in associates and joint ventures	7	**904,756**	949,231
Investment properties	8	**415,879**	394,156
Property, plant and equipment	9	**2,835,383**	2,825,312
Other assets	10	**145,850**	169,788
Intangible assets	11	**650,141**	716,138
Goodwill	12	**74,343**	220,866
TOTAL ASSETS		**6,693,734**	6,928,757
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	13	**2,032,666**	2,309,544
Derivative financial instruments	14	**8,177**	16,565
Lease liabilities	15	**653,484**	584,111
Trade payable, accruals and other liabilities	16	**681,572**	665,446
Employees' end of service benefits	17	**12,005**	13,724
Total liabilities		**3,387,904**	3,589,390
Equity			
Share capital	18	**2,000,000**	2,000,000
Capital contribution	18	**518,852**	448,531
Statutory reserve	19	**81,225**	81,225
Other reserves	20	**10,921**	(387)
Retained earnings		**49,112**	183,862
Total equity attributable to owner of the company		**2,660,110**	2,713,231
Non-controlling interests		**645,720**	626,136
Total equity		**3,305,830**	3,339,367
TOTAL LIABILITIES AND EQUITY		**6,693,734**	6,928,757

Salman Bin Khalifa Al Khalifa
Chairman

Elham Hasan
Director

Suha S. Karzoon
Managing Director - Finance

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2022

	Note	*2022 BD '000*	*2021 BD '000*
Revenue	22	**2,662,380**	2,170,068
Direct costs	23	**(2,060,724)**	(1,585,940)
Gross profit		**601,656**	584,128
Dividend income		**9,026**	1,723
Fair value (loss) / gain on investments carried at fair value through statement of income	6	**(1,962)**	50,241
Other operating income	24	**27,868**	37,491
Government assistance	25	**16,518**	16,877
Selling and distribution expenses		**(168,289)**	(99,098)
Administrative expenses		**(201,725)**	(220,065)
Other operating expenses	26	**(32,416)**	(26,147)
Operating profit		**250,676**	345,150
Share of profit of associates and joint ventures	7	**40,876**	27,055
Interest income		**4,270**	3,169
Interest expense		**(144,934)**	(131,658)
Fair value gain on other financial instruments (net)	14	**14,688**	67,839
Impairment losses	27	**(194,325)**	(19,454)
(LOSS) / PROFIT BEFORE TAX		**(28,749)**	292,101
Income tax (expense) / credit for the year	28	**(25,244)**	37,050
(LOSS) / PROFIT FOR THE YEAR		**(53,993)**	329,151
Attributable to:			
Owner of the Company		**(115,120)**	186,162
Non-controlling interests		**61,127**	142,989
		(53,993)	329,151

Salman Bin Khalifa Al Khalifa
Chairman

Elham Hasan
Director

Suha S. Karzoon
Managing Director - Finance

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022	*2021*
	BD '000	*BD '000*
NET (LOSS) / PROFIT FOR THE YEAR	**(53,993)**	329,151
Other comprehensive income		
Items that are or may be reclassified to consolidated statement of income in subsequent periods		
Movement in cumulative changes in fair values	**35,910**	14,196
Share of changes in equity of associates	**(2,911)**	(3,603)
Foreign currency translation	**(26,287)**	(12,911)
Items that will not be reclassified to consolidated statement of income in subsequent periods		
Remeasurement gain / (loss) on defined benefit plan	**1,827**	(1,750)
Total other comprehensive income for the year	**8,539**	(4,068)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(45,454)**	325,083
Attributable to:		
Owner of the company	**(103,812)**	183,833
Non-controlling interests	**58,358**	141,250
	(45,454)	325,083

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Note	**2022 BD '000**	2021 BD '000
OPERATING ACTIVITIES			
Net (loss) / profit before tax for the year		**(28,749)**	292,101
Adjustments for:			
Depreciation	8,9	**201,951**	197,520
Amortisation	11	**73,513**	84,209
Fair value gain on other financial instruments	14	**(14,688)**	(67,839)
Fair value loss / (gain) on investments carried at fair value through statement of income	6	**1,962**	(50,241)
Gain on disposal / transfer of investment properties	8	**(684)**	(1,047)
Share of profits of associates and joint ventures	7	**(40,876)**	(27,055)
Impairment losses	27	**194,325**	19,454
Provision for impairment on trade receivables and other receivables	4	**2,652**	8,806
Provision for impairment of inventories	5	**18,389**	1,102
Gain on disposal of investment in associate		**(622)**	-
Gain on property, plant and equipment	24	**(3,510)**	(686)
Interest income		**(4,270)**	(3,169)
Interest expense		**144,934**	131,658
Employees' end of service benefits	17	**2,932**	3,028
Others		**(127)**	(5,984)
Operating profit before changes in operating assets and liabilities		**547,132**	581,857
Changes in operating assets and liabilities:			
Inventories		**(51,224)**	(98,108)
Trade receivable, prepayments and other receivables		**51,479**	(146,022)
Trade payable, accruals and other liabilities		**93,153**	(38,194)
Cash from operating activities		**640,540**	299,533
Income tax paid		**(4,154)**	(4,534)
Derivative financial instruments		**2,435**	(1,403)
Employees' end of service benefits paid	17	**(4,651)**	(2,857)
Net cash from operating activities		**634,170**	290,739
INVESTING ACTIVITIES			
Investment in associates and joint venture		**(5,940)**	(16,664)
Purchase of investments carried at fair value through statement of income		**(6,732)**	(13,522)
Proceeds from sale of investments carried at fair value through statement of income and other investments		**59,827**	43,533
Purchase of property, plant and equipment	9	**(148,273)**	(44,187)
Proceeds from disposal of property, plant and equipment		**19,172**	4,906
Investment in properties	8	**(24,295)**	(1,733)
Proceeds from sale of investment properties		**1,273**	3,125
Intangible assets	11	**(84,831)**	(100,995)
Other assets		**24,458**	61,632
Short term deposits		**(18,085)**	162
Interest received		**3,265**	2,590
Dividends from associates and joint ventures		**42,553**	34,997
Net cash used in investing activities		**(137,608)**	(26,156)

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2022

	Note	**2022 BD '000**	*2021 BD '000*
FINANCING ACTIVITIES			
Capital contribution	18	**-**	37,600
Proceeds from borrowings		**629,755**	1,493,475
Repayment of borrowings		**(907,873)**	(1,528,834)
Interest paid		**(115,327)**	(112,489)
Lease Liabilities payments		**(45,826)**	(79,357)
Dividend paid to shareholder of the parent	18	**(20,000)**	(20,000)
Dividend paid to non-controlling interests		**(37,067)**	(11,759)
Movement in non-controlling interests (net)	21	**(555)**	(33)
Net cash used in financing activities		**(496,893)**	(221,397)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(331)**	43,186
Exchange loss on cash and cash equivalent		**(20,916)**	(370)
Cash and cash equivalents at beginning of the year		**213,199**	170,383
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**191,952**	213,199

The attached notes 1 to 37 form part of these consolidated financial statements.

Bahrain Mumtalakat Holding Company B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owner of the company						*Non-controlling interests*	*Total equity*
	Share capital BD '000 (note 18)	*Capital contribution BD '000 (note 18)*	*Statutory reserve BD '000 (note 19)*	*Other reserves BD '000 (note 20)*	*Retained earnings BD '000*	*Total BD '000*	*BD '000*	*BD '000*
Balance at 31 December 2020	2,000,000	341,389	62,609	48	34,792	2,438,838	453,000	2,891,838
Net income for the year	-	-	-	-	186,162	186,162	142,989	329,151
Other comprehensive income	-	-	-	(3,076)	747	(2,329)	(1,739)	(4,068)
Total comprehensive income	-	-	-	(3,076)	186,909	183,833	141,250	325,083
Contribution by the shareholder (note 18)	-	107,142	-	-	-	107,142	-	107,142
Shares issued to non-controlling interests of a subsidiary (note 21)	-	-	-	-	-	-	55,762	55,762
Dividend paid to shareholder of the parent (note 18)	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Dividend paid to non-controlling interests	-	-	-	-	-	-	(11,759)	(11,759)
Fair value gain/loss on preference shares and warrants (note 13 iv)	-	-	-	2,641	-	2,641	(11,307)	(8,666)
Transfer to statutory reserve	-	-	18,616	-	(18,616)	-	-	-
Other movement in non-controlling interests (note 21)	-	-	-	-	777	777	(810)	(33)
Balance at 31 December 2021	2,000,000	448,531	81,225	(387)	183,862	2,713,231	626,136	3,339,367
Net loss for the year	-	-	-	-	(115,120)	(115,120)	61,127	(53,993)
Other comprehensive income	-	-	-	11,308	-	11,308	(2,769)	8,539
Total comprehensive income	-	-	-	11,308	(115,120)	(103,812)	58,358	(45,454)
Contribution by the shareholder (note 18)	-	70,321	-	-	-	70,321	-	70,321
Acquisition of non-controlling interests of a subsidiary (note 21)	-	-	-	-	-	-	(782)	(782)
Dividend paid to shareholder of the parent (note 18)	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Dividend paid to non-controlling interests	-	-	-	-	-	-	(37,067)	(37,067)
Other movement in non-controlling interests (note 21)	-	-	-	-	370	370	(925)	(555)
Balance at 31 December 2022	**2,000,000**	**518,852**	**81,225**	**10,921**	**49,112**	**2,660,110**	**645,720**	**3,305,830**

The attached notes 1 to 37 form part of these consolidated financial statements.

1 REPORTING ENTITY

Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company"), a closed Bahraini Joint Stock Company, was incorporated in the Kingdom of Bahrain by Royal Decree number 64 of 2006 and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 61579, on 29 June 2006. The Company operates as an investment company. The postal address of the Company's registered office is P.O. Box 820, Manama, Kingdom of Bahrain.

The Company is fully owned by the Government of the Kingdom of Bahrain ("the shareholder") through the Ministry of Finance and National Economy. The Company acts as the investment arm of the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 8 June 2023.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets at fair value through the statement of profit or loss. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at amortised cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are presented in Bahraini Dinars, being the functional and presentational currency of the Company and are rounded to the nearest thousand (BD '000).

2.1 Statement of compliance

The consolidated financial statements of the Company and its subsidiaries (together "the Group") have been prepared in accordance with IFRS standards as issued by the International Accounting Standards Board (IFRS Standards), and in conformity with the Commercial Companies Law.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The Company has the following significant subsidiaries:

Name	*% Ownership at 31 December 2022*	*Effective date of control*	*Principal activity*
Aluminium Bahrain B.S.C. (Alba)	69.38%	29 June 2006	Owns and operates a primary aluminium smelter and the related infrastructure.
Bahrain Real Estate Investment Company (EDAMAH) B.S.C. (c)	100.00%	29 June 2006	Developing, leasing and managing investment properties.
Gulf Air Group Holding B.S.C (c)	100.00%	2 February 2010	Investment holding company.
McLaren Group Limited	59.91%	20 July 2017	Engaged in design, development, manufacture and sale of high performance sport cars. In addition, it owns and operates the McLaren racing brand and related businesses.

2 BASIS OF PREPARATION (continued)
2.2 Basis of consolidation (continued)

Gulf Air Group Holding B.S.C (c) has the following significant wholly owned subsidiaries:

Name	*Effective date of control*	*Activity*
Bahrain Airport Company B.S.C. (c)	17 January 2008	Managing airport facilities, airplanes ground services and airport surrounding area development.
Gulf Air B.S.C. (c)	5 May 2007	Transportation of passengers and freight on a scheduled and charter basis.
Gulf Handling Company W.L.L.	10 August 2017	Cargo clearance.

The Company's ownership in McLaren Group Limited at 31 December 2022 is 59.91% (31 December 2021: 59.91%). McLaren Group Limited has the following significant subsidiaries:

Name	*Effective date of control*	*Activity*
McLaren Automotive Limited	20 July 2017	Manufacturing and sale of high end sport cars.

All of the subsidiaries above are incorporated and principally operate in the Kingdom of Bahrain except McLaren Group Limited which is incorporated in the United Kingdom.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

2 BASIS OF PREPARATION (continued)

2.2 Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

All material intra-group balances and transactions, including material unrealised gains and losses on transactions and dividends, between Group companies have been eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the Group using consistent accounting policies.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 New and amended standards and interpretations effective as of 1 January 2022

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2 BASIS OF PREPARATION (continued)

2.3 New and amended standards and interpretations effective as of 1 January 2022 (continued)

There are no new standards, amendments to the standards, which became effective as of 1 January 2022, that were relevant and had a material impact on the consolidated financial statements.

2.4 New and amended standards and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted, however the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following new standards, amendments and interpretations to standards that are relevant to the Group are not expected to have a significant impact on the Group's consolidated financial statements.

1. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
2. Definition of Accounting Estimates (Amendments to IAS 8)
3. Deferred tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
4. Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
5. Classification of liabilities as current or non-current (Amendments to IAS 1).

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances, deposits held at call with banks and other short-term deposits with an original maturity of three months or less, net of outstanding overdrafts and excluding amounts under lien and restricted bank accounts.

Financial instruments - initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as 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 flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient which are measured at the transaction price determined under IFRS 15, the Group 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.

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

The Group'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 recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include investments, trade and other receivables, derivatives, and cash and bank balances.

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

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

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets classified as fair value through profit or loss (FVTPL)
Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held-for-trading as fair value through other comprehensive income (FVOCI) on initial recognition.

Debt instruments that do not meet the amortised cost criteria are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at fair value through profit or loss. A debt instrument may be designated as FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising gains or losses on them on different basis. The Group designated its debt instruments as FVTPL.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as FVTPL on initial recognition is not allowed.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

Interest income on debt instruments designated as FVTPL is included in the consolidated statement of profit or

Dividend income on investments in equity instruments measured at FVTPL is recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established.

Financial assets at fair value through other comprehensive income (FVOCI)
The Group elects (on an instrument-by-instrument basis) to designate its investments in certain equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held-for-trading.

A financial asset is held-for-trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

Financial assets (continued)

Financial assets at fair value through other comprehensive income (FVOCI) (continued)
Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss cannot be reclassified to the consolidated statement of profit or loss on disposal of the investments.

Dividends are recognised in the consolidated statement of profit or loss when the right of receipt has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such proceeds are reduced from the value of the investment. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset measured at amortised cost or at fair value through profit or loss, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

On derecognition of a financial asset that is classified as FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated statement of profit or loss, but is reclassified to retained earnings.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments, except for those classified as FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised 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).

For trade receivables, bank balances, contract assets and lease rental receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

Financial assets (continued)
Impairment of financial assets (continued)
The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets
Financial assets
A financial asset (in whole or in part) is derecognised where:

- the right to receive cash flows from the asset has expired;
- the Group has transferred its rights to cash flows from an asset and either (a) has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IFRS 9 are initially classified as financial liabilities at amortised cost and measured at fair value net of transaction cost. The Group's financial liabilities include loans and borrowings, retentions payable, a portion of trade and other payables and bank overdrafts.

Subsequent measurement
Financial liabilities within the scope of IFRS 9 are subsequently measured at amortised cost using the EIR.

Financial liabilities at amortised cost
Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Trade and other payables
Liabilities for trade and other payables are subsequently measured at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

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

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, such as interest rate swaps, foreign exchange contracts and forward commodity futures, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Derivative financial instruments are initially recognised in the consolidated statement of financial position at cost, including transaction costs, and subsequently re-measured to fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either:

i) the fair value of a recognised asset or liability (fair value hedge), or

ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

- at the inception of the hedge there is formal documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation should include identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or the hedged transaction's cash flows that is attributable to the hedged risk;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported net profit or loss;
- the effectiveness of the hedge can be reliably measured, that is, the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured; and
- the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

Changes in fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges and prove to be highly effective in relation to the hedged risk, are recognised as a separate component in equity as a cash flow hedge reserve. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in the consolidated statement of comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Financial instruments (continued)

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are classified as held for trading and are recognised immediately in the consolidated statement of income.

Offsetting of financial instruments

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

Amortised cost of financial instruments

The EIR is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The EIR is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the EIR, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value measurement

The Group measures financial instruments, such as, investments carried at fair value through profit or loss at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market. The principal market or most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; investments in managed funds are based on net asset

  This includes valuation of derivatives which are not traded in an active market such as commodity options, interest rate collars and swaps etc. for which fair values are determined by valuation techniques carried out by counterparties.

  Forward foreign exchange contracts for which fair values are determined using forward exchange market rates at the reporting date with the same maturity.

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Financial instruments (continued)

Fair value measurement (continued)

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. For equity investments that are not quoted in an active market, fair valuation is based primarily on market multiples of comparable companies which are quoted.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition.

Costs incurred in bringing each product to its current location and condition are accounted for, as follows:

Raw Material:	Purchase cost on a weighted average basis.
Finished Goods and work in progress:	cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realisable value is based on estimated selling price, less any further costs expected to be incurred on completion and disposal.

Impairment provision is made for obsolete, slow moving and defective items.

Racing cars are expected to be used for one season. All expenditure on the production and maintenance of such cars is charged to the consolidated statement of profit or loss during the racing season in which the racing car is used. Costs incurred in preparing a racing car is recognised as an asset and charged in the period in which the corresponding racing occurs and benefit is derived.

The Group carries forward to the following year certain development costs incurred in the current year which relate to the production of next season's racing car.

Investment in associates and joint venture
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Investment in associates and joint venture (continued)

The considerations made in determining significant influence or joint control are similar to those necessary to determine the control over subsidiaries. The Group's investment in its associates and joint venture are accounted for using the equity method of accounting.

Under the equity method, the investment in the associate or a joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate or joint venture. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the share of the results of operations of the associate or joint venture. Where there has been a change recognised directly in the other comprehensive income of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Profits and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

Gains or losses on partial disposal of interest that does not result in a loss of significant influence on associates or joint venture is recognised in the consolidated statement of profit or loss and a proportionate amount of gain or loss previously recognised in other comprehensive income is reclassified to the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of profit or loss.

The financial statements of the associates or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Investment properties

Property that is held to earn long term rentals or for capital appreciation or both, and that is not occupied by any member of the Group is classified as investment property. Investment properties comprise land and buildings. Investment properties are initially measured at cost, including transaction costs.

Contribution from the Shareholder in the form of ready-to-use land and/ or building is recognised upon transfer of rights and obligations of the property to the Group evidenced by registration of the title deed of the property in the Group's favour. Contributions other than those in form of ready-to-use assets (e.g. unreclaimed land plots) are recognised when the intended future use is confirmed, evidenced by conceptualization and approval of master plan, awarding of contracts and commencement of reclamation to bring the asset to the intended shape, form and use.

After initial recognition, the investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the estimated useful lives of 30 years. No depreciation is provided on freehold land.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other expenses are included in the consolidated statement of profit or loss when incurred.

Investment property under construction is treated as investment property based on IAS 40.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Investment properties (continued)

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of retirement or disposal.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Land and assets in the process of completion are not depreciated. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Depreciation is calculated on a straight line basis over the estimated useful lives of property, plant and equipment as follows:

	Useful lives (years)
Buildings and leasehold improvements	Lease term or 35 years, whichever is shorter
Aircraft and operating ground equipment	5 - 18
Plant, machinery and equipment	3 - 25
Motor vehicles	4
Furniture and office equipment	5

Assets in the process of completion are transferred to the relevant type of property, plant and equipment when the asset is ready to be put into commercial use.

The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined based on depreciation policy relating to such owned assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Property, plant and equipment (continued)
An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic 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 the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the consolidated statement of profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Where factors such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level, if it is not possible to estimate the recoverable amount of the individual asset. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the expenditure is separately identifiable;
- the outcome of the project can be assessed with reasonable certainty; and
- aggregate costs are not expected to exceed related future sales and adequate resources exist to enable the project to be completed.

Intangible asset - brand
The brand acquired on business combination is recognised at fair value on the date of acquisition. The brand is considered as an intangible asset with indefinite useful life.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Intangible assets (continued)

Intangible asset - product development costs

Development costs incurred on new car programmes include materials, direct labour and the cost of work outsourced to third parties. Development costs on each car programme are capitalised up to the point at which the vehicle is formally handed over to production, which normally occurs 90 days following the first vehicle being produced. The intangible asset including development costs is amortised over the sales life-cycle volumes of the associated car programme, in accordance with the receipt of benefit.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the consolidated statement of profit or loss as it is incurred. Amortisation is recorded in direct costs. During the period of development, the asset is tested for impairment annually.

Intangible asset - IT systems development costs

IT infrastructure expenditure is capitalised and amortised over 3-10 years from the date of implementation.

Heritage assets

The Group has a collection of heritage vehicles, made up of a number of racing cars, F1 road cars, historic vehicles and spare F1 racing monocoques. Heritage assets are recorded at cost less accumulated impairment losses. These assets are accounted for at the fair value being the cost on the date of acquisition. Subsequently, these assets are carried at cost less impairment.

The vehicles are maintained by the business on a regular basis with maintenance costs being charged to the consolidated statement of profit or loss when incurred. The cars are deemed to have indeterminate lives and the directors do not therefore consider it appropriate to charge depreciation.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, fair value of previously held interest, if any and the amount recognised for non-controlling interest, over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of profit or loss.

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Business combinations and goodwill (continued)
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Property, plant and equipment
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable at the reporting date. For the aircraft, the Group assesses impairment on the basis of independent external valuations.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Impairment of non-financial assets (continued)

Goodwill

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually as at 31 December, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Associates and joint ventures

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates and joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in associates and joint ventures is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associates and joint ventures and recognises the amount in the consolidated statement of profit or loss.

Investment properties

The investment properties are assessed for impairment at each reporting date. The valuation methods followed are summarised below:

- Vacant land: these are measured based on residual method where there is potential economic development or recent comparable transaction prices.
- Ground lease land: these are measured by taking into account the potential future income, as per lease agreements in place and the value of the asset to the Group on expiry of the lease. The income is discounted to present value.

The value of the property to the Group on expiry of the lease term is assessed either assuming that the property will be in a good condition to generate rental income in which case a capital future income method is used or the property would be considered as a redevelopment site.

If the recoverable value of the investment properties falls below the carrying amount, the difference is recognised as impairment losses in the consolidated statement of profit or loss.

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Employee benefits

Bahraini nationals
For Bahraini nationals, the Group makes contributions to the Social Insurance Organisation (SIO) Scheme. This is a funded defined contribution scheme and the Group's contributions are charged to the consolidated statement of profit or loss in the year to which they relate. The Group's obligations are limited to the amounts contributed to the Scheme. In addition, the Group also provides for end of service benefits to certain Bahraini nationals whose salaries exceed a certain limit as stipulated in the Bahrain Labour Law.

Other benefits
Employees' other benefits such as housing, annual leave, air passage and other short-term benefits are recognised as they accrue to the employees.

End of service benefits
The expatriate employees of the Group are paid an end of service indemnity, which represents a defined benefit plan in accordance with the provisions of the labour law in their respective countries of employment. This liability, which is not funded, is provided for on the basis of the notional amount payable based on accrued service as at the statement of financial position date.

Pension for overseas employees
One of the Group's overseas subsidiaries pays contributions to personal pension scheme, with the costs being charged to the statement of profit or loss. For defined benefit scheme the amount charged to the statement of profit or loss in respect of pension costs and other retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and the contributions actually paid are shown as either accruals or prepayments in the consolidated statement of financial position.

Leases

At the inception of the contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16 and assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
    - the Group has the right to operate the asset; or
    - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Leases (continued)

(i) Group as a lessee:

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the lease term.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

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

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less (including IT equipment) and for leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Group as a lessor:

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract

At the commencement date, the Group recognises assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease, based on a pattern reflecting a constant periodic rate of return.

Provisions
Provisions are recognised when the Group 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.

Restructuring provisions
Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Foreign currency translation
Transactions in foreign currencies are initially recorded in Bahraini Dinars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the exchange rate ruling at the reporting date. All exchange gains and losses are taken to the consolidated statement of profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date 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. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Translation gains or losses on non-monetary available-for-sale items carried at fair value are included in other comprehensive income as part of the fair value adjustment on available-for-sale investments, unless part of an effective hedging strategy.

The assets and liabilities of foreign operations are translated into Bahraini Dinars at the rate of exchange ruling at the reporting date and their statement of profit or loss items are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Revenue recognition
Revenue from contracts with customers
Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The following specific recognition criteria must also be met before revenue is recognised.
1. Sale of metals and other products
Revenue from sale of goods is recognised at the point in time when control is transferred to the customer, generally on delivery of the goods. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer (if any).

(i) Variable consideration
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Certain contracts for the sale of goods provide customers with volume discounts. The volume discounts give rise to variable consideration.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)
1. Sale of metals and other products (continued)
(i) Variable consideration (continued)
Volume discounts

The Group provides retrospective volume discounts to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Discounts are offset against amounts payable by the customer. To estimate the variable consideration for the expected future discounts, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future discounts.

(ii) Significant financing component

Generally, the Group receives short-term advances from its customers. The Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

During the current year, the Group also received a long-term advance from a customer in consideration for the sale of aluminium. All settlements against the advance will be in the form of quantities of aluminium and any adjustments arising due to the fluctuations in price will be adjusted in the quantities delivered over the term of the contract. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

2. Passenger and freight revenue

Revenue is recognised when control of the services are transferred to the customer (upon uplift of aircraft) at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services excluding taxes or duty, if any. Sale of passenger tickets and cargo airway bills are recognised as revenue, net of revenue attributable to the award of frequent flyer benefits, when the transportation service is provided. Other revenue is recognised at the time the service is provided.

Unearned revenue

Sale of passenger tickets and cargo airway bills are initially recorded as unearned revenue. The value of passenger and cargo tickets sold but which have remained unused for more than 18 months, or are utilised or expired as per the terms of the ticket sold, is accounted for as revenue.

Commissions, incentives, reservation and other costs

Commissions, incentives, reservations and other personalised service costs are charged as expenditure when the revenue to which they relate is earned.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

3. Sale of motor vehicles

Revenue from sale of vehicles, including heritage cars is recognised when the control of the vehicles have passed to the customer, which is normally considered to be the point of dispatch to the dealer, when the car is imported into the destination country or when the vehicles are received by the dealer.

Where a customer has purchased a package including race events, revenue for the vehicle is recognised when the car is made available to the customer. Revenue for each event is recognised once the event has taken place.

Sponsorship fees and motor car racing

Sponsorship income is deferred and is recognised in the consolidated statement of profit or loss over the period in which the Group performs its obligations under the sponsorship contract.

Other motor racing revenue is recognised when the Group has performed its obligations in order to earn the revenue.

In certain cases, the Group enters into agreements with suppliers whereby goods and services are received in exchange for various sponsorship and marketing activities. In such cases, revenue is recorded at the fair value of the goods or services rendered.

Contracts for supply of goods or services

Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date, turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Direct costs

Direct costs are recognised at the same time as the revenue to which they relate.

Other revenue

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Interest income

Interest income is recognised based on effective interest rates.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Government assistance

Government assistance is recognised where there is reasonable assurance that the assistance will be received and all attached conditions are complied with. When the assistance relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the assistance relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Government assistance that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the consolidated statement of profit or loss in the period in which they become receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur.

Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided for in accordance with the taxation laws of the countries where the Group operates.

Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2 BASIS OF PREPARATION (continued)

2.5 Significant accounting policies (continued)

Taxes (continued)

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 recognised 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; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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 recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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. Unrecognised 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 assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside consolidated statement of profit or loss is not recognised in the consolidated statement of profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

2 BASIS OF PREPARATION (continued)
2.5 Significant accounting policies (continued)

Taxes (continued)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in the consolidated statement of profit or loss.

Sales tax
Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of sales tax included.

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

3 CASH AND BANK BALANCES

	2022	*2021*
	BD '000	*BD '000*
Cash and current accounts with banks	**145,737**	143,618
Call deposits	**61,049**	61,380
Term deposits	**69,736**	38,469
Cash and bank balances	**276,522**	243,467
Bank balances under lien, and term deposits with an original maturity of more than three months	**(45,947)**	(25,354)
Bank overdrafts (note 13)	**(38,623)**	(4,914)
Cash and cash equivalents as per the consolidated statement of cash flows	**191,952**	213,199

The majority of the cash and bank balances, and call and term deposits are denominated in Bahraini Dinars and US Dollars. As at 31 December 2022, the effective interest rate on call deposits was 1.57% (2021: 1.11%) per annum and term deposits was 3.96% (2021: 1.12%) per annum. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the relevant banks.

4 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2022	*2021*
	BD '000	*BD '000*
Trade receivables (net of allowance for ECL)	**286,919**	349,057
Prepayments	**44,262**	56,050
Other receivables, net of impairment	**66,074**	47,227
	397,255	452,334

The movements in the allowance for ECL on trade receivables were as follows:

	2022	2021
	BD '000	*BD '000*
Balance at beginning of the year	**29,494**	23,224
Charge for the year, net	**2,652**	8,806
Amount written off during the year	**(1,246)**	(2,536)
Balance at end of the year	**30,900**	29,494

The ageing analysis of trade receivable (net of allowance for ECL) is as follows:

			Past due				
	Total	*Current*	*< 30 days*	*31 – 60 days*	*61 – 90 days*	*91 – 120 days*	*>120 days*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
2022	**286,919**	**191,507**	**61,748**	**6,045**	**4,542**	**21,937**	**1,140**
2021	349,057	326,984	9,110	1,973	2,984	6,961	1,045

Trade receivables (net of allowance for ECL) and other receivable are expected, on the basis of previous experience, to be fully recoverable.

During the year, impairment losses on other receivables amounted to BD Nil (2021: BD 1,003 thousand) (note 27)

5 INVENTORIES

	2022	2021
	BD '000	*BD '000*
Raw materials	**128,080**	95,508
Work in progress	**132,409**	130,176
Finished goods	**132,353**	106,316
Store, spare parts and consumables	**56,292**	49,612
Goods in transit	**50,284**	52,509
	499,418	434,121
Provision for impairment of inventories	**(24,239)**	(6,557)
	475,179	427,564

The movements in provision for impairment on inventories were as follows:

	2022	2021
	BD '000	*BD '000*
Balance at beginning of the year	**6,557**	12,704
Charge for the year	**18,389**	1,102
Inventories written off during the year	**(707)**	(7,249)
Balance at end of the year	**24,239**	6,557

6 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2022	2021
	BD '000	*BD '000*
Equities- quoted	**9,006**	8,890
Equities- unquoted	**383,948**	353,974
Debt securities- unquoted	**2,750**	2,707
Managed funds	**80,497**	155,487
	476,201	521,058

Quoted equities are fair valued based on market bid prices at the close of business on the reporting date or based on valuation techniques if market prices are not relevant due to inactive markets. These are classified under level 1 fair value hierarchy or included in level 3 hierarchy based on the valuation technique. Managed funds are fair valued based on net asset values quoted by the fund manager. Managed funds with underlying quoted securities are included in level 2 fair value hierarchy and private equity and debt funds are included in level 3 fair value hierarchy. Refer to note 32 for disclosure of fair value hierarchies.
The fair value of unquoted equities are primarily based on market multiples of comparable companies and adjusted net asset values using Level 3 inputs.

Fair value loss on investments carried at fair value through statement of income recognised during the year ended 31 December 2022 is BD 1,962 thousand (2021: BD 50,241 thousand gain on investments).

7 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2022	*2021*
	BD '000	*BD '000*
Investment in associates	**838,762**	833,234
Investment in joint ventures	**65,994**	115,997
	904,756	949,231

(i) Share of profit of associates and joint ventures

	2022	*2021*
	BD '000	BD '000
Share of profit of associates	**58,306**	50,756
Share of loss of joint ventures	**(17,430)**	(23,701)
	40,876	27,055

(ii) The Group has the following significant associates at 31 December 2022 and 2021:

Associate	*Country of incorporation and operation*	*Principal activities*	*% Ownership*
Telecommunications Company B.S.C. (BEYON)	Kingdom of Bahrain	Providing telecom services	36.67%
National Bank of Bahrain B.S.C. (NBB)	Kingdom of Bahrain	Banking	44.06%

(iii) Summarised financial information of material associates

Summarised financial information in respect of the material associates is set out below. The summarised financial information below represents amounts reported in the associates' audited financial statements prepared in accordance with IFRS.

	BEYON		*NBB*	
	2022	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Total assets	**1,101,161**	1,030,585	**4,785,300**	4,535,600
Total liabilities	**(558,839)**	(499,902)	**(4,209,400)**	(4,000,300)
Net assets	**542,322**	530,683	**575,900**	535,300
Revenue	**402,823**	399,644	**173,000**	150,900
Net profit for the year	**78,711**	70,120	**64,600**	49,800
Other comprehensive income for the year	**(12,105)**	5,835	**10,000**	(8,800)
Total comprehensive income for the year	**66,606**	75,955	**74,600**	41,000
Dividend received during the year	**18,295**	18,295	**16,502**	15,002

7 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

(iv) Share of net assets and carrying value of investments:

	BEYON		*NBB*	
	2022	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Group's share of the net assets	**182,018**	179,535	**249,336**	232,549
Goodwill	**-**	-	**122,716**	122,716
Other adjustments	**66,624**	66,659	**(1,960)**	(1,540)
Carrying value of investments	**248,642**	246,194	**370,092**	353,725

(v) Market values

NBB and BEYON are listed on the Bahrain Bourse. The market values of the Group's share based on quoted prices at 31 December 2022 were BD 570,014 thousand (2021: BD 544,560 thousand) and BD 292,750 thousand (2021: BD 355,569 thousand) respectively.

(vi) Aggregate information of associates that are not individually material

	2022	*2021*
	BD '000	BD '000
Group's share of profit for the year (net)	**4,661**	6,264
Group's share of other comprehensive income for the year (net)	**(1,051)**	(3,616)
Group's share of total comprehensive income for the year (net)	**3,610**	2,648
Aggregate carrying value of Group's investment in these associates	**220,028**	233,315

(vii) Aggregate information of joint ventures that are not individually material

	2022	*2021*
	BD '000	BD '000
Group's share of loss and total comprehensive income for the year	**(17,430)**	(23,701)
Aggregate carrying value of Group's investment in these joint ventures	**65,994**	115,997

7 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

(viii) Impairment losses

The Group determines at each reporting date whether there is any indication of impairment as defined in IAS 36 'Impairment of Assets'. Accordingly, the Group performed impairment tests on certain investments in associates as at 31 December 2022. In order to reasonably assess the recoverable amount of the associate, the Group used market valuation based on discounted cash flows and trading multiples (EV/EBITDA) of comparable companies, using level 3 inputs.

Based on the impairment tests, the carrying value of an associate and a joint venture exceeded the recoverable amount and accordingly impairment losses of BD 30,813 thousand (2021: Nil) have been recognised in the consolidated statement of income (note 27).

(ix) Contingencies

The Company has 33.33% ownership interest in Hawar Holding Company (Hawar) which owns 20% of the issued share capital of BEYON. The 20% shares of BEYON owned by Hawar is pledged to a financial institution as a security against loans originally obtained by Hawar for the purpose of financing the acquisition of the said shares. The loan outstanding as of 31 December 2022 was BD 52,640 thousand (2021: BD 57,904 thousand). The terms of the loan agreement require that in the event of default in payment by Hawar, the shareholders of Hawar will be liable to repay the loan amount. The loan is maturing in March 2027.

8 INVESTMENT PROPERTIES

	Freehold land BD '000	*Buildings BD '000*	*Total BD '000*
Cost:			
Balance at 1 January 2022	336,555	63,846	400,401
Additions	22,854	1,441	24,295
Disposals	(589)	-	(589)
At 31 December 2022	**358,820**	**65,287**	**424,107**
Accumulated depreciation:			
Balance at 1 January 2022	-	6,245	6,245
Charge for the year	-	1,983	1,983
At 31 December 2022	**-**	**8,228**	**8,228**
Net carrying amount:			
At 31 December 2022	**358,820**	**57,059**	**415,879**

	Freehold land BD '000	*Buildings BD '000*	*Total BD '000*
Cost:			
Balance at 1 January 2021	338,633	64,786	403,419
Additions	-	1,733	1,733
Disposals	(2,078)	-	(2,078)
Impairment losses (note 27)	-	(2,673)	(2,673)
At 31 December 2021	336,555	63,846	400,401
Accumulated depreciation:			
Balance at 1 January 2021	-	4,307	4,307
Charge for the year	-	1,938	1,938
At 31 December 2021	-	6,245	6,245
Net carrying amount:			
At 31 December 2021	336,555	57,601	394,156

Buildings include properties under construction amounting to BD 8,721 thousand (2021: BD 7,253 thousand).

Additions include properties received from the shareholder amounting to BD 9,586 thousand in 2022 (2021: BD Nil) as capital contribution (note 18).

Properties with carrying value of BD 589 thousand was disposed during the year (2021:BD 2,078 thousand). Resulting net gain of BD 684 thousand (2021: BD 1,047 thousand) is included in other operating income (note 24).

8 INVESTMENT PROPERTIES (continued)

The Group evaluates the recoverable amount of the properties as at the reporting date based on the following methods:

- Vacant land- residual method and comparable prices;
- Ground lease land- assessed taking into account the potential future income, as per lease agreements in place and the value of the asset to the Group on expiry of the lease, all of which is discounted to present value.

The asset value to the Group on expiry of the lease has been assessed either assuming that the property would be in a good condition to generate rental income in which case a capital future income method is used or the property would be considered as a redevelopment site.

The valuation methods also factor the existing and/or prospective use and zoning/urban planning requirements, and restrictions such as current limited market demand, restrictions of the property itself (e.g. no access to the site), existing ground leases, existing tenancies; etc.

The fair value of the investment properties at 31 December 2022 was BD 430,724 thousand (2021: BD 409,740 thousand). This comprises of properties with fair value of BD 365,146 thousand (2021: BD 340,194 thousand) determined by independent appraisers and properties with fair value of BD 65,578 thousand (2021: BD 69,546 thousand) determined internally, based on level 3 inputs using valuation methodologies discussed above. There has been no change in the valuation methodologies during the year as compared to previous year.

Based on fair valuation performed, investment properties are not impaired as of 31 December 2022. Impairment losses of BD2,673 thousand was recognised on investment properties in the consolidated statement of income for the year ended 31 December 2021 (note 27).

The investment properties comprise of a diversified portfolio of properties. Since the valuations are based on various assumptions such as marketability, lease term, rentals, discount rate etc., computation of the sensitivity of the valuation to reasonably possible changes in the assumptions used is neither practicable nor relevant.

Investment properties of BD 137,591 thousand (2021: BD 137,011 thousand), are leased out under operating leases. Rental income from such investment properties included in revenue amount to BD 9,729 thousand (2021: BD 8,507 thousand) and the related expenses amount to BD 2,139 thousand (2021: BD 2,068 thousand).

Investment properties with net carrying value of BD 48,689 thousand as of 31 December 2022 (2021: BD 48,652 thousand) are mortgaged against US$ 96.5 million note payable by Lash HQ L.L.C. with a carrying value of BD 36,250 thousand as of 31 December 2022 (2021: BD 36,250 thousand) (note 13).

9 PROPERTY, PLANT AND EQUIPMENT

	Land	*Buildings and leasehold improvements*	*Aircraft and operating ground equipments*	*Plant, machinery and equipment*	*Motor vehicles*	*Furniture and office equipment*	*Assets in the process of completion*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cost:								
At 1 January 2022	49,180	526,400	724,175	2,427,571	24,699	100,997	227,057	4,080,079
Additions	857	38,381	-	26,210	1,137	1,804	174,529	242,918
Foreign currency adjustments	(162)	(8,262)	-	(441)	(38)	(614)	(303)	(9,820)
Transfers/reversals, net	-	18,942	57,021	22,026	45	5,172	(104,186)	(980)
Disposals and write offs	(22)	(2,799)	(21,479)	(13,314)	(406)	(1,940)	(99)	(40,059)
Impairment losses (note 27)	-	-	(6,417)	-	-	-	-	(6,417)
At 31 December 2022	**49,853**	**572,662**	**753,300**	**2,462,052**	**25,437**	**105,419**	**296,998**	**4,265,721**
Accumulated depreciation:								
At 1 January 2022	2,058	98,426	169,838	892,141	14,680	77,624	-	1,254,767
Charge for the year	230	23,646	52,516	109,218	4,111	10,247	-	199,968
Relating to disposals and write offs	-	(1,619)	(10,599)	(9,907)	(402)	(1,870)	-	(24,397)
At 31 December 2022	**2,288**	**120,453**	**211,755**	**991,452**	**18,389**	**86,001**	**-**	**1,430,338**
Net carrying amount:								
At 31 December 2022	**47,565**	**452,209**	**541,545**	**1,470,600**	**7,048**	**19,418**	**296,998**	**2,835,383**

Additions include right-of-use assets of BD 34,047 thousand acquired under leases during the year.

9 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land BD '000	*Buildings and leasehold improvements BD '000*	*Aircraft and operating ground equipments BD '000*	*Plant, machinery and equipment BD '000*	*Motor vehicles BD '000*	*Furniture and office equipment BD '000*	*Assets in the process of completion BD '000*	*Total BD '000*
Cost:								
At 1 January 2021	47,604	433,914	680,258	2,371,226	16,137	89,536	297,894	3,936,569
Additions	80	42,069	-	28,127	684	3,771	117,341	192,072
Foreign currency adjustments	(28)	(1,103)	-	(25)	(3)	(46)	(26)	(1,231)
Transfers/reversals, net	1,524	54,962	73,297	42,659	8,482	10,379	(188,140)	3,163
Disposals and write offs	-	(3,442)	(13,602)	(14,416)	(601)	(2,643)	(12)	(34,716)
Impairment losses (note 27)	-	-	(15,778)	-	-	-	-	(15,778)
At 31 December 2021	49,180	526,400	724,175	2,427,571	24,699	100,997	227,057	4,080,079
Accumulated depreciation:								
At 1 January 2021	1,770	80,079	129,647	797,577	10,154	70,454	-	1,089,681
Charge for the year	288	20,592	53,972	105,995	5,127	9,608	-	195,582
Relating to disposals and write offs	-	(2,245)	(13,781)	(11,431)	(601)	(2,438)	-	(30,496)
At 31 December 2021	2,058	98,426	169,838	892,141	14,680	77,624	-	1,254,767
Net carrying amount:								
At 31 December 2021	47,122	427,974	554,337	1,535,430	10,019	23,373	227,057	2,825,312

Additions include right-of-use assets of BD 43,838 thousand acquired under leases during the year

9 PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Assets on lease

Aluminium Bahrain B.S.C. ("Alba") uses land leased from the Government and from The Bahrain Petroleum Company B.S.C. (c). These leases are rent free. In addition, land used by Alba for the construction of Line 6 is also leased from the Government for 25 years effective 1 July 2014. This rate is subject to change every five years based on the circular issued by the Government. This lease has been presented as part of a right-of-use asset under property, plant and equipment.

Bahrain Airport Company B.S.C. (c) ("BAC") entered into an agreement with the Ministry of Finance and National Economy effective 3 March 2009 to lease the airport land, installations, structures, terminal building and runway for 100 years at a rent of BD 1 per annum. On 4 June 2013, BAC signed a supplemental lease agreement with the Ministry of Finance and National Economy which extended BAC's right to use, but not own, the airport plant and equipment. In addition, Bahrain International Circuit Company W.L.L uses the circuit and other facilities leased from the Government at a rent of BD 1 per annum.

(ii) Right-of-use assets

Aircraft fleet, spare engines and aircraft spares

The net book value of the aircraft fleet, spare engines and aircraft spares includes an amount of BD 324,820 thousand (2021: 418,072 thousand) in respect of aircraft simulators held under finance leases.

(iii) Secured assets

Assets acquired under finance leases included aircraft with a net carrying amount of BD 100,148 thousand (2021: BD 115,979 thousand) and plant and machinery and other equipment of BD 6,404 thousand (2021: BD 5,683 thousand) which are secured by charges on these assets. The items include both direct purchases through finance leases which are secured thereto, and aircraft and engines purchased under conditional sale agreements whereby the Group has possession of all the risks and rewards of ownership but where title remains with the seller until payment is made in full of the purchase price. Refer to note 13 for details of borrowings of McLaren Group Limited which are secured against their assets.

(iv) Assets in the process of completion

Assets in the process of completion include pre-delivery payments of BD 172,275 thousand (2021: BD 139,894 thousand) in respect of aircraft scheduled for delivery between 2022 and 2026.

(v) Depreciation expense

Depreciation for the year is included in direct costs BD 161,366 thousand (2021: BD 158,144 thousand) and administrative expenses BD 38,602 thousand (2021: BD 37,438 thousand).

10 OTHER ASSETS

	2022	*2021*
	BD '000	*BD '000*
Heritage assets (i)	**36,766**	41,053
Deposits (ii)	**9,412**	9,732
Receivable from associates and joint ventures (note 30) & (iii)	**25,157**	18,722
Deferred Tax Assets (iv)	**12,299**	37,642
Miscellaneous assets (v)	**62,216**	62,639
	145,850	169,788

10 OTHER ASSETS (continued)

(i) Heritage assets

The Group has a collection of heritage vehicles, made up of a number of racing cars, F1 road cars, historic vehicles and spare F1 racing car monocoques. The collection is held in several locations; at the McLaren Technology Centre, most of which is on display to visitors and employees; on display at Donington Park Race Circuit; at McLaren Automotive Dealerships; and the remainder is held in secure storage. These assets are held in the consolidated statement of financial position at cost, being the fair value on the date of acquisition, less impairment losses. The cars are deemed to have indeterminate lives and the Board of directors does not therefore consider it appropriate to charge depreciation.

(ii) Deposits

Deposits represent amounts placed with lessors for the lease of aircraft and engines and other security deposits. These deposits carry no interest and mature on various dates until 2034.

(iii) Receivables from associates and joint ventures

Receivable from associates represents loans provided by the Group to certain associates and joint ventures, net of allowance for ECL of BD 287 thousand as at 31 December 2022 (2021: BD 287 thousand).

(iv) Deferred tax Asset

	Consolidated statement of financial position		*Consolidated statement of income*	
	2022	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Accelerated depreciation for tax purposes	**2,881**	3,200	**(26)**	(529)
Fair valuation of assets and liabilities	**(50,221)**	(53,936)	**(1,637)**	(87)
Losses available for offsetting against future taxable income	**42,923**	79,242	**28,341**	(16,289)
Foreign currency adjustments	**967**	1,721	**-**	-
Others	**15,749**	7,415	**(6,098)**	(27,126)
Total deferred tax expense / (credit) [note 28 b]			**20,580**	(44,031)
Net deferred tax assets	**12,299**	37,642		

(v) Miscellaneous assets

Miscellaneous assets at 31 December 2022 include deferred fair value loss on preference shares and stapled warrants issued by McLaren Group Limited amounting to BD 37,835 thousand (note 13 iv (2021: BD 42,417 thousand).

11 INTANGIBLE ASSETS

	Brand	*IT systems development costs*	*Product development costs*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Cost:				
At 1 January 2022	253,454	49,973	773,824	1,077,251
Additions	-	1,261	83,570	84,831
Transfer	-	25	(386)	(361)
Write offs	-	(1,095)	-	(1,095)
Impairment losses (note 27)	-	-	(9,767)	(9,767)
Foreign currency adjustment	(27,353)	-	(96,213)	(123,566)
At 31 December 2022	**226,101**	**50,164**	**751,028**	**1,027,293**
Accumulated Amortisation:				
At 1 January 2022	-	37,895	323,218	361,113
Charge for the year	-	1,284	72,229	73,513
Foreign currency adjustment	-	-	(56,383)	(56,383)
Relating to write offs	-	(1,091)	-	(1,091)
At 31 December 2022	**-**	**38,088**	**339,064**	**377,152**
Net carrying amount:				
At 31 December 2022	**226,101**	**12,076**	**411,964**	**650,141**

	Brand	*IT systems development costs*	*Product development costs*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Cost:				
At 1 January 2021	256,221	46,043	708,288	1,010,552
Additions	-	3,671	97,324	100,995
Transfers	-	307	(2,311)	(2,004)
Write offs	-	-	(18,411)	(18,411)
Foreign currency adjustment	(2,767)	(48)	(11,066)	(13,881)
At 31 December 2021	253,454	49,973	773,824	1,077,251
Accumulated Amortisation:				
At 1 January 2021	-	33,075	260,932	294,007
Charge for the year	-	4,905	79,304	84,209
Foreign currency adjustment	-	(85)	(5,899)	(5,984)
Relating to write offs	-	-	(11,119)	(11,119)
At 31 December 2021	-	37,895	323,218	361,113
Net carrying amount:				
At 31 December 2021	253,454	12,078	450,606	716,138

11 INTANGIBLE ASSETS (continued)

Amortisation of intangibles of BD 71,559 thousand is included in direct costs (2021: BD 76,604 thousand) and BD 1,954 thousand (2021: BD 1,013 thousand) is included in administrative expenses.

Brand is assumed to have an indefinite useful life, considering the fact that McLaren being a well renowned brand established in 1963 and has a long history rooted in racing and innovation. McLaren has won several competitions and is relayed globally through an international dealership network with presence in over 32 countries.

The Group has performed an impairment test as at 31 December 2022 in respect of the brand relating to McLaren. Based on the valuation, the brand is not impaired as at 31 December 2022.

The Group has also performed an impairment test as at 31 December 2022 in respect of IT systems development costs and product development costs. Based on the impairment test, impairment loss of BD 9,767 thousand has been recognised in the consolidated financial statements for the year ended 31 December 2022 (2021: Nil).

12 GOODWILL

	2022 BD '000	*2021 BD '000*
Balance at beginning of the year	**220,866**	222,529
Impairment losses	**(146,523)**	-
Foreign currency adjustments	**-**	(1,663)
Balance at end of the year	**74,343**	220,866

Impairment losses recognised in the consolidated statement of income comprise of:

	2022 BD '000	*2021 BD '000*
General Poultry Company B.S.C. (c) (General Poultry)	**965**	-
McLaren Group Limited (McLaren)	**146,363**	-
Impairment losses- net (note 27)	**147,328**	-

12 GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, for impairment testing as follows:

		2022	*2021*
		BD '000	*BD '000*
•	Aluminium Bahrain B.S.C. [Alba]	**74,343**	74,343
•	General Poultry Company B.S.C. (c) [General Poultry]	**-**	965
•	McLaren Group Limited [McLaren]	**-**	145,558
		74,343	220,866

In accordance with the requirements of IFRS standards, the Group has performed an impairment test as at 31 December 2022 in respect of the goodwill relating to Alba and McLaren.

Alba

As at 31 December 2022, the Group has performed an impairment test in respect of the goodwill relating to Alba.

The recoverable amount of the Alba cash generating unit was determined based on value-in-use calculation. The forecasts use cash flow projections based on financial budgets approved by management covering an initial period of one year. Cash flows for years 2 to 5 have been determined on the basis of management's expectation of the business taking into account the prevailing global and Gulf Cooperation Council economic conditions in general and the aluminium industry in particular. Revenue forecasts are based on weighted forward estimates of aluminium prices published by CRU (an independent market authority on metal prices), LME Rolling Forward Prices and management’s price estimates. The cash flows are discounted using a discount rate of 13%. In addition, a growth rate of 2% has been applied from year 5 into perpetuity which is in line with the long term average inflation forecasts.

Based on the valuation, the goodwill relating to Alba was not impaired as of 31 December 2022.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use, management believes that reasonably possible changes in the growth rate and EBITDA margins would not cause a material change to the recoverable amount. However, an increase in the rate used to discount the projected cash flows by 1% (with all other variables remain unchanged) would result in a reduction in the recoverable amount of the cash generating unit by BD143,700 thousand (31 December 2021: BD 124,340 thousand). A change in LME price by USD 100/mt (with all other variables remain unchanged) throughout the forecast period would result in in a change in the recoverable amount of the cash generating unit by BD 276,600 thousand (31 December 2021: BD 228,000 thousand).

12 GOODWILL (continued)

McLaren

The recoverable amount of the McLaren cash generating unit was determined based on the higher of value in use and fair value less cost of disposal. The forecasts use cash flow projections based on financial budgets approved by management covering an initial period of one year. Cash flows for years 2 to 5 have been determined on the basis of management's expectation of the business taking into account the prevailing global and economic conditions in general and the industry in which McLaren operates. The cash flows are discounted using a pre-tax discount rate of 14.5% considering the risk associated with the forecast free cash flows and characteristics of the individual businesses as at 31 December 2022. In addition, a growth rate of 2.1% has been applied from year 5 into perpetuity which is in line with the long term average inflation forecasts. The fair value less cost of disposal is determined based on a market approach using EV/ revenue multiple.

Based on the valuation, the goodwill relating to McLaren was fully impaired as of 31 December 2022. Accordingly, Impairment loss of BD 146,363 thousand, including foreign currency loss reclassified from other comprehensive income of BD 805 thousand was recognised in the consolidated statement of income. This impairment loss was due to reduction in projected cash flows primarily on account of the weak economic outlook.

Sensitivity to changes in assumptions

Sensitivity to the changes in the assumptions used in determining the recoverable amount as of 31 December 2022 is not presented as the goodwill has been fully impaired. An increase in the rate used to discount the projected cash flows by 1% (with all other variables remain unchanged) would result in a reduction in the recoverable amount of the cash generating unit by BD 43,860 thousand as of 31 December 2021. Similarly, a 1% reduction in gross margin (with all other variables remain unchanged) would result in a reduction in the recoverable amount of the cash generating unit by BD 52,872 thousand as of 31 December 2021.

13 BORROWINGS

	Effective interest rates		***Total***	*Total*
	2022	*2021*	***2022***	*2021*
			BD '000	*BD '000*
Bank overdrafts (note 3)	**3% - 7.15%**	2.85% - 4.1%	**38,623**	4,914
Short term loans	**3% to 7.3%**	3.4% - 5%	**15,912**	5,555
Alba line 6 project loans (i)	**2.5% - 6.7%**	1.1% - 3.15%	**566,506**	793,219
Alba other credit facilities	**0.80% - 3.9%**	0.80% - 3.9%	**62,706**	133,932
Mumtalakat sukuks (ii)	**4.1%- 5.63%**	4.1%- 5.63%	**411,813**	411,212
Other term loans (iii)	**3% - 7.68%**	3.25% - 6.00%	**416,888**	426,756
Other long term loans /bonds (iv)	**3.09% - 15%**	2.25% - 15%	**520,218**	533,956
			2,032,666	2,309,544

(i) Represents loans obtained by Alba to finance its line 6 expansion project. It comprises of:

- In April 2022, ALBA entered into a term loan agreement with a syndicate of financial institutions for USD 1,247 million comprising of two tranches: US$ 537 million as a conventional credit facility and US$ 710 million as an Islamic Ijara facility. Gulf International Bank B.S.C is the global facility agent and investment agent for this facility. This loan was utilized to repay all amounts borrowed by ALBA under the old term loan facility. During the year, the Group have prepaid an amount of US$ 300 million. The carrying value of this loan as of 31 December 2022 was BD 334,331 (2021: BD 496,320 thousand). The loan is repayable in sixteen semi-annual instalments commencing from October 2022. The new term loan facility carried interest at SOFR plus 2.350% (2021: LIBOR plus 3.00%).

- In 2017, ALBA entered into a total of Euro 411 million and US$ 310 million Export Credit Financing facilities with certain financial institutions. The carrying value of these loans as of 31 December 2022 was BD 174,452 (2021: BD 204,660 thousand). These loans are repayable in twenty four semi-annual instalments which commenced in 2019.

- During 2018, Alba entered into a total of Euro 246 million and US$ 136 million Export Credit Financing facilities with certain financial institutions. During the year, ALBA repaid an amount of EUR 90 million. The carrying value of these loans as of 31 December 2022 was BD 57,723 (2021: BD 92,239 thousand). These loans are repayable in twenty semi-annual instalments which commenced in 2019.

(ii) Represents sukuks issued by the Company's Special Purpose Vehicle under its Multi Currency Trust Certificate Issuance Programme. The Sukuk program is structured as a “Wakala”. The senior unsecured trust certificates issued under this program are listed on the Irish Stock Exchange. The terms of the arrangement include transfer of beneficial ownership of certain identified assets (the “Wakala assets”) of the Group to a Special Purpose Vehicle, Mumtalakat Sukuk Holding Company (the “Issuer”), formed for the issuance of trust certificates. In substance, the Wakala assets remain in control of the Group and shall continue to be serviced by the Group. The note holders have no recourse to the assets.

The sukuks outstanding as of the date of the statement of financial position comprise of:

- US$ 600 million sukuks issued in 2019 for a term of 5 years with a profit rate of 5.63%. The carrying value of the sukuk as at 31 December 2022 was BD 225,339 thousand (2021: BD 225,113 thousand).

- US$ 500 million sukuks issued in 2020 for a term of 7 years with a profit rate of 4.10%. The carrying value of the sukuk as at 31 December 2022 was BD 186,474 thousand (2021: BD186,099 thousand).

13 BORROWINGS (continued)

(iii) Other term loans comprise of the following:

- Unsecured loans amounting to BD 406,370 thousand (2021: BD 416,173 thousand). These loans are maturing on various dates till June 2026.

- Loans amounting to BD 9,417 thousand (2021: BD 9,431 thousand) which are secured against certain miscellaneous receivables of the Group.

- Loan amounting to BD 1,101 thousand (2021: BD 1,152 thousand) obtained during 2014 to finance a capital project. The loan is secured against certain property, plant and equipment and is repayable on a monthly basis over a period of 25 years.

(iv) Other long term loans /bonds comprise of:

- In August 2021, McLaren Group Limited issued US$ 620 million bonds with a carrying value of BD 227,859 thousand as at 31 December 2022 (2021: BD 227,438 thousand). The bonds carry an interest at 7.5% per annum and are repayable in August 2026. These bonds are secured against the assets of McLaren Group Limited.

  During 2021, McLaren Group Limited issued redeemable senior preference shares amounting to GBP 400 million to new investors and convertible preference shares amounting to GBP 150 million to existing shareholders and certain new investors. In addition, certain stapled and unstapled warrants that are also convertible into equity shares have been issued. The senior preference shares and convertible preference shares have been recognised as liability in accordance with IAS 32 and carried at fair value with changes in fair values recognised in profit or loss. The fair value of the preference shares held by third party investors and the non-controlling interest of the Group at 31 December 2022 amounting to BD 256,103 thousand (2021: BD 270,268 thousand) has been included in borrowings. The related fair value gain amounting to BD BD 9,188 (2021: BD 22,595 thousand) has been included in gain on other financial instruments (note 14). The fair value of the stapled warrants at 31 December 2022 amounting to BD 396 thousand (2021: BD 6,663 thousand) is included in negative fair value of derivatives (note 14). Unstapled warrants are considered as equity instruments, hence the fair value of such instruments is included in other reserve and non-controlling interest in the statement of changes in equity (note 20 & 21).

13 BORROWINGS (continued)

The Group also performed a fair valuation of these instruments on the date of issue (day 1) and the difference between the fair value and the consideration received is deferred. The amount relating to the instruments issued to third party investors amounting to BD 37,835 thousand (2021: 42,417 thousand) is included in other assets (note 10) and the amount relating to non-controlling interest is included in non-controlling interest within the consolidated statement of changes in equity.

- US$ 96.5 million mortgage note payable by Lash HQ L.L.C. with a carrying value of BD 36,250 thousand as of 31 December 2022 (2021: BD 36,250 thousand). The note is secured by investments in properties with net carrying value of BD 48,689 thousand as of 31 December 2022 (2021: BD 48,652 thousand) (note 8) .The note was due for repayment in 2021, with two, one-year extensions, and carry interest at Libor plus 1.4% per annum with a cap of 2.6% per annum. The note was extended for an additional year until November 2023.

14 DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of the Group's derivative financial instruments at 31 December is as follows:

	Notional Value		***Positive fair value***		***Negative fair value***	
	2022	*2021*	***2022***	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Held as trading						
Interest rate swaps	**36,295**	36,295	**591**	*23*	**-**	-
Commodity futures contracts	**-**	-	***6***	-	**-**	79
Foreign exchange contracts	**-**	-	**-**	17	**-**	-
Others (Stapled warrants)	**-**	-	**-**	-	**396**	6,663
Held as cash flow hedges						
Interest rate swaps	**344,980**	360,960	**40,308**	5,692	**-**	1,294
Foreign exchange contracts	**172,088**	324,235	**1,320**	3,111	**7,781**	8,529
	553,363	721,490	**42,225**	8,843	**8,177**	16,565

(a) The gains / (losses) on derivative financial instruments for the year ended 31 December are as follows:

2022	***Gains / (losses)***		
	Revaluation	***Realised***	***Total***
	BD '000	***BD '000***	***BD '000***
Held as trading			
Interest rate swaps	**568**	**12,590**	**13,158**
Commodity futures contracts	**-**	**85**	**85**
Held as cash flow hedges			
Foreign exchange contracts	**-**	**(13,406)**	**(13,406)**
Total	**568**	**(731)**	**(163)**

(b) Gain on other financial instruments

	Gains		
	Revaluation	***Realised***	***Total***
	BD '000	***BD '000***	***BD '000***
Warrants, senior and convertible preference shares			
Fair value adjustment (note 13 (iv))	**14,851**	**-**	***14,851***
Total fair value gain on other financial instruments (net) (a + b)	**15,419**	**(731)**	**14,688**

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

2021	*Gains / (losses)*		
	Revaluation	*Realised*	*Total*
	BD '000	*BD '000*	*BD '000*
Held as trading			
Interest rate swaps	17	-	17
Foreign exchange contracts	18	-	18
Commodity futures contracts	(85)	-	(85)
Held as cash flow hedges			
Foreign exchange contracts	-	1,195	1,195
Total	(50)	1,195	1,145

(b) Gain on other financial instruments

	Gains		
	Revaluation	*Realised*	*Total*
Senior and convertible preference shares			
Fair value adjustment (note 13 (iv))	22,595	44,099	*66,694*
Total fair value gain on other financial instruments (net) (a + b)	22,545	45,294	67,839

The Group enters into derivative transactions to hedge economic risks under its risk management guidelines that may not qualify for hedge accounting under IFRS 9. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income. Derivatives held under cash flow hedges represent foreign exchange contracts to hedge against exchange rate risk arising from anticipated future transactions.

The Group entered into commodity futures contracts to reduce the price risk on behalf of its customers for 4,250 metric tonnes (2021: 7,825 metric tonnes) and these mature between one to six months from the reporting date.

The fair values of derivative financial instruments are obtained from counterparty financial institutions. These are classified under level 2 fair value hierarchy (note 32).

15 LEASE LIABILITIES

	2022	*2021*
	BD '000	*BD '000*
Balance at beginning of the year	**584,111**	517,014
Additions during the year	**94,645**	147,885
Interest expense	**28,024**	25,528
Remeasurement of lease liability	**30,496**	-
Foreign currency adjustments	**(9,942)**	(1,431)
Lease liabilities paid	**(73,850)**	(104,885)
Balance at end of the year	**653,484**	584,111

The Group has entered into leases in respect of certain aircrafts, engines, buildings etc. Information about key lease arrangements are mentioned below:

Type of transaction and counterparty	***Term***	***Expiry***	***Leased aircrafts***
Lease - Lenders	Up to 15 years	Up to June 2034	Three Airbus A320 aircraft Four Airbus A320ER aircraft Two Airbus A321 aircraft Seven Dreamliner 787-9 aircraft Five Airbus A320N aircraft
Lease -Engine Manufacture	15 years	Up to June 2034	Two Trent-1000 engines
Lease - Lenders	12 years	Up to July 2033	Three Airbus A321-200NX
Lease - Lenders	2 years	Up to July 2024	Seven Airbus A321N aircraft
Lease - Lenders	15 years	Up to June 2037	One Airbus A321N aircraft
Lease - Lenders	12 years	Up to July 2034	Two CFM LEAP 1A26 engines

At 31 December 2022, these leases carries interest/discount rate per annum in the range of 3%-8% (31 December 2021: range of 3%-6%).

16 TRADE PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2022	*2021*
	BD '000	*BD '000*
Trade payable *(i)*	**188,833**	210,231
Accrued expenses *(ii)*	**297,218**	293,747
Unearned revenue	**56,595**	18,405
Warranty provision *(iii)*	**24,721**	26,653
Advance from customers and retentions payable	**10,739**	10,162
Other payables	**103,466**	106,248
	681,572	665,446

(i) Details of payables to related parties included in trade payable are disclosed in note 30.

(ii) Based on independent tax and legal advisors' opinion, the Group will not bear any excess liability over the existing accruals in 2022 in respect of legal claims (2021: Nil) (note 29 (ii)).

16 TRADE PAYABLE, ACCRUALS AND OTHER LIABILITIES (continued)

(iii) The warranty provision relates to the three year warranty given to customers on the sale of each vehicle by McLaren Group Limited. The Group is liable for the parts and labour costs associated with repairing and manufacturing faults arising on vehicles during the warranty period. The movements in warranty provision were as follows:

	2022	*2021*
	BD '000	*BD '000*
Balance at beginning of the year	**26,653**	20,811
Provision for the year	**26,173**	24,717
Foreign currency adjustments	**(2,882)**	501
Utilised during the year	**(25,223)**	(19,376)
Balance at end of the year	**24,721**	26,653

17 EMPLOYEES' END OF SERVICE BENEFITS

	2022	*2021*
	BD '000	*BD '000*
Balance at beginning of the year	**13,724**	11,803
Provision for the year	**2,932**	4,778
Payments during the year	**(4,651)**	(2,857)
Balance at end of the year	**12,005**	13,724

18 SHARE CAPITAL, CAPITAL CONTRIBUTION AND DIVIDEND

	2022	*2021*
	BD '000	*BD '000*
Share capital		
Authorised:		
2,000,000,000 shares of BD 1 each	**2,000,000**	2,000,000
Issued and fully paid:		
2,000,000,000 shares of BD 1 each (2021: 2,000,000,000 shares of BD 1 each)	**2,000,000**	2,000,000

18 SHARE CAPITAL, CAPITAL CONTRIBUTION AND DIVIDEND (continued)

Capital contribution

Movement in capital contribution during the year is as follows:

	2022	*2021*
	BD '000	*BD '000*
Balance at the beginning of the year	**448,531**	341,389
Investment properties received during the year (note 8)	**9,586**	-
Cash contribution (note i)	**-**	37,600
Liabilities assumed by the shareholder (note ii)	**60,735**	69,542
Balance at end of the year	**518,852**	448,531

Notes

(i) During 2021, the shareholder had provided cash of BD 37,600 thousand to the Group that was recognised as capital contribution. No such cash contributions were received during the current year.

(ii) During the year, the shareholder has assumed certain of the Group's liabilities amounting to BD 60,735 thousand (2021: BD 69,542 thousand). This amount was recognised as capital contribution.

Dividend

During the year, the Company paid dividend to the shareholder of BD 20,000 thousand (2021: BD 20,000 thousand)

19 STATUTORY RESERVE

The statutory reserve has been created in accordance with the requirements of the Commercial Companies Law and the Articles of Association of the Company. The Company transfers 10% of its annual net profit to its statutory reserve until such time as the reserve equals 50% of the issued share capital of the Company. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law. No transfer has been made in the current year as the Group reported losses (2021: 18,616 thousand).

20 OTHER RESERVES

	Fair value reserve BD '000	*Foreign currency translation and cash flow hedges reserve BD '000*	*Pension plan reserve BD '000*	*Total BD '000*
Balance at 1 January 2022	**(8,221)**	**9,238**	**(1,404)**	**(387)**
Total other comprehensive income	**2,845**	**6,636**	**1,827**	**11,308**
Balance at 31 December 2022	**(5,376)**	**15,874**	**423**	**10,921**
Balance at 1 January 2021	(10,258)	9,960	346	48
Total other comprehensive income	(604)	(722)	(1,750)	(3,076)
Deferred gain on unstapled warrants (note 13 iv)	2,641	-	-	2,641
Balance at 31 December 2021	(8,221)	9,238	(1,404)	(387)

21 MOVEMENTS IN NON-CONTROLLING INTERESTS

Shares issued to non-controlling interests of a subsidiary
During 2021, McLaren Group Limited issued shares to non-controlling interests amounting to BD 55,762 thousand.

Acquisition of non-controlling interests of a subsidiary
During the year, the Group has purchased certain shares held by minority shareholders of a subsidiary amounting to BD 782 thousand. (2021: nil).

Other movement in non-controlling interests
Other movement in non-controlling interests represents the net movement in treasury shares held by Alba.

22 REVENUE

	2022 BD '000	*2021 BD '000*
Metals and minerals	**1,840,924**	1,584,838
Aviation	**429,909**	204,179
Automotive, car racing and related technology services	**301,692**	319,011
Other revenues	**89,855**	62,040
	2,662,380	2,170,068

Revenue from Automotive, car racing and related technology services is generated from the United Kingdom, all other revenue sources are primarily generated from the Kingdom of Bahrain.

23 DIRECT COSTS

	2022	2021
	BD '000	*BD '000*
Raw materials, spares and consumables	**892,724**	669,379
Staff costs (note i)	**164,360**	178,198
Depreciation	**161,366**	158,144
Amortisation of intangibles	**66,155**	76,604
Fuel	**160,715**	50,813
Operating lease rentals (note ii)	**2,015**	1,928
Repairs and maintenance	**90,304**	52,428
Electricity, water and other utilities	**255,474**	241,531
Other flight operations	**59,557**	33,694
Warranty costs	**18,412**	7,684
Freight	**87,718**	51,634
Others	**101,924**	63,903
	2,060,724	1,585,940

Notes

(i) In addition to the above staff costs, selling and distribution expenses and administrative expenses include staff costs of BD 18,076 thousand and BD 86,824 thousand respectively (2021: 25,585 thousand and BD 94,405 thousand respectively).

(ii) Operating lease rentals represent rental expenses relating to low-value assets and short-term leases which are not recognised as right-of-use assets and lease liabilities under IFRS 16 but expensed on a straight-line basis over the lease term.

24 OTHER OPERATING INCOME

	2022	2021
	BD '000	*BD '000*
Gain on foreign exchange	**-**	7,641
Insurance claim	**281**	-
Gain on disposal / transfer of investment properties (note 8)	**684**	1,047
Gain on disposal/ write off of property, plant and equipment, net	**3,510**	686
Miscellaneous income	**23,393**	28,117
	27,868	37,491

25 GOVERNMENT ASSISTANCE

	2022	2021
	BD '000	*BD '000*
Government assistance-operations	**16,518**	10,352
Government assistance-Covid 19	**-**	6,525
	16,518	16,877

Government assistance-operations comprises of BD 16,518 thousand (2021: BD 10,352 thousand) received by Bahrain Flour Mills Company B.S.C. from the Ministry of Finance and National Economy on behalf of the Government of the Kingdom of Bahrain to subsidise the flour price. Government assistance-Covid-19 for the year ended 31 December 2022 were nil (2021: BD 6,525 thousand)

25 GOVERNMENT ASSISTANCE (continued)

Government assistance receivable of BD 3,648 thousand is included in trade receivable, prepayments and other receivable (2021: BD 2,175 thousand).

26 OTHER OPERATING EXPENSES

	2022	*2021*
	BD '000	*BD '000*
Loss on discontinued operations of a subsidiary (i)	**-**	19,386
Loss on foreign exchange, net	**32,232**	-
Others	**184**	6,761
	32,416	26,147

(i) On 4 August 2021, following a strategic review of McLaren Group, McLaren Group completed the sale of its Applied business division, focusing McLaren Group activities on supercar manufacturing.

27 IMPAIRMENT LOSSES

	2022	*2021*
	BD '000	*BD '000*
Impairment losses on goodwill (note 12)	**147,328**	-
Impairment losses on investment in associates and joint venture (note 7)	**30,813**	-
Impairment losses on investment properties (note 8)	**-**	2,673
Impairment losses on property, plant & equipment (note 9)	**6,417**	15,778
Impairment losses on Intangibles (note 11)	**9,767**	-
Impairment losses on other receivable (note 4)	**-**	1,003
	194,325	19,454

28 INCOME TAX

(a) Tax expense relating to ALBA

During the year, the Group incurred a tax expense of BD 405 thousand on the operation of ALBA's subsidiary in the United States (2021: BD 1,073 thousand).

(b) Tax (expense) / credit included in the consolidated statement of income relating to McLaren:

	2022	*2021*
	BD '000	*BD '000*
Current tax:		
Current income tax charge	**2,347**	892
Adjustment in respect of prior years foreign tax	**1,912**	5,016
Total current tax	**4,259**	5,908
Deferred tax:		
Relating to origination and reversal of temporary differences	**(19,846)**	(15,799)
Unrecognized deferred tax	**21,656**	-
Derecognition of previously recorded deferred tax assets	**28,341**	-
Effect of change in the tax rate and adjustment in respect of prior years & others	**(9,571)**	(28,232)
Total deferred tax expense / (credit) (see note 10)	**20,580**	(44,031)
Income tax (expense) / credit	**24,839**	(38,123)

28 INCOME TAX (continued)

Deferred tax balances at 31 December 2022 and 31 December 2021 are measured at the rate at which they are expected to reverse. There is no expiry date on timing differences, unused tax losses or tax credits.

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2022	*2021*
	BD '000	*BD '000*
Accounting loss before income tax	**(146,657)**	(39,757)
Tax on McLaren Group profit at standard UK corporation tax rate	**(27,865)**	(7,554)
Effects of:		
Expenses not deducted for tax purposes	**11,264**	7,349
Unrecognized deferred tax	**21,656**	-
Derecognition of previously recorded deferred tax assets	**28,341**	
Income not subject to Tax	**(8,476)**	(24,027)
Re-measurement of deferred tax - change in UK tax rate	**300**	(21,723)
Others	**(381)**	7,832
McLaren Group total tax expense / (credit) for the year	**24,839**	(38,123)

29 COMMITMENTS AND CONTINGENCIES

Commitments

(i) *Capital expenditure*

At the reporting date, the Group had the following capital expenditure commitments relating to the acquisition of property, plant and equipment and investments.

	2022	*2021*
	BD '000	BD '000
Aircraft (note i)	**645,593**	670,262
Others (including investments)	**251,511**	162,578
	897,104	832,840

Note:

(i) At 31 December 2022, aircraft commitments of BD 271,016 thousand (2021: BD 251,816 thousand) are due within one year, BD 374,577 thousand (2021: BD 418,446 thousand) are due within one to five years from the reporting date.

(ii) *Letters of credit*

The commitments on outstanding letters of credit as at 31 December 2022 were BD 10,999 thousand (2021: BD 22,178 thousand). The commitments are expected to be settled within one year.

29 COMMITMENTS AND CONTINGENCIES (continued)

Contingencies

(i) *Guarantees*

The Group has issued guarantees to banks and other institutions amounting to BD 44,927 thousand (2021: BD 38,997 thousand).

In addition, the Group's bankers have issued guarantees to third parties on behalf of the Group amounting to BD 1,228 thousand (2021: BD 13,385 thousand).

(ii) *Law suits*

Law suits have been filed against Gulf Air in the Kingdom of Bahrain and in certain other jurisdictions where Gulf Air operates. These relate to claims which are in the normal course of business. In management's view based on independent legal advice, adequate provision has been made in these consolidated financial statements for liabilities that may arise from these law suits, and the possibility of incurring significant additional penalties or damages pending final judgment is expected to be remote [note 16 (ii)].

30 RELATED PARTY DISCLOSURES

Related parties represent the shareholder, entities controlled by the shareholder, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the boards of directors of the various group companies.

In the ordinary course of business, the Group purchases supplies and services from entities related to the Government of the Kingdom of Bahrain, principally natural gas, jet fuel and public utility services. A royalty, based on the production of Aluminium Bahrain B.S.C., is also paid to the Government of the Kingdom of Bahrain.

Transactions with related parties included in the consolidated statement of income are as follows:

	2022			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates / Joint ventures BD '000*	*Total BD '000*
Income				
Revenue	**212**	**1,297**	**117,111**	**118,620**
Government assistance	**16,518**	**-**	**-**	**16,518**
Interest income	**-**	**-**	**1,112**	**1,112**
	16,730	**1,297**	**118,223**	**136,250**
Expenses				
Direct costs	**-**	**302,933**	**10,934**	**313,867**
Administrative expenses	**-**	**-**	**385**	**385**
Interest expense	**-**	**-**	**11,654**	**11,654**
	-	**302,933**	**22,973**	**325,906**

30 RELATED PARTY DISCLOSURES (continued)

	2021			
	Shareholder	*Entities controlled by the shareholder*	*Associates*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Income				
Revenue	198	3,397	114,969	118,564
Government assistance	16,877	-	-	16,877
Interest income	-	-	788	788
	17,075	3,397	115,757	136,229
Expenses				
Direct costs	-	258,823	12,541	271,364
Administrative expenses	-	-	542	542
Interest expense	-	-	4,820	4,820
	-	258,823	17,903	276,726

Details of land leased from related parties are disclosed in note 9.

Balances with related parties included in the consolidated statement of financial position are as follows:

	2022			
	Shareholder	***Entities controlled by the shareholder***	***Associates / Joint ventures***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Assets				
Trade receivable, prepayments and other receivables	**3,830**	**344**	**13,797**	**17,971**
Other assets	**-**	**-**	**25,157**	**25,157**
Cash and bank balances	**-**	**-**	**14,782**	**14,782**
	3,830	**344**	**53,736**	**57,910**
Liabilities				
Borrowings	**-**	**-**	**147,777**	**147,777**
Trade payable, accrued expenses and other liabilities	**384**	**40,821**	**29,283**	**70,488**
	384	**40,821**	**177,060**	**218,265**

30 RELATED PARTY DISCLOSURES (continued)

	2021			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates / Joint ventures BD '000*	*Total BD '000*
Assets				
Trade receivable, prepayments and other receivables	3,168	2,521	11,589	17,278
Other assets	-	-	18,722	18,722
Cash and bank balances	-	-	30,121	30,121
	3,168	2,521	60,432	66,121
Liabilities				
Borrowings	-	-	161,518	161,518
Trade payable, accrued expenses and other liabilities	1,190	38,830	23,054	63,074
	1,190	38,830	184,572	224,592

Compensation of key management personnel

The remuneration of members of key management personnel for the year was BD 11,167 thousand (2021: BD 12,221 thousand).

Fees to the directors of the Group companies provided for during the year was BD 838 thousand (2021: BD 834 thousand).

31 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note provides information about the Group's exposure to each of the above risks, the Group's approach to risk management and the management of capital. Quantitative disclosures about various risks are included in the respective sections. The Group's overall risk management approach is to moderate the effects of such risks on its financial performance. The Group uses derivatives in hedging specific exposures (note 14).

Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management approach and for approving the risk management policies and procedures. These policies are established to identify and analyse risks faced by the Company and set appropriate risk limits and controls to monitor risks. These policies are reviewed regularly to reflect changes according to market condition and Group's activities. The Company, through its policies, procedures and processes aims to develop and maintain a robust control environment in which all employees understand their roles and responsibilities.

31 FINANCIAL RISK MANAGEMENT (continued)

Risk Management Framework (continued)
The Company assesses and manages risk through a committee structure. The existing committee structure for risk is designed to ensure a periodic review of risks, a sharing of knowledge about risks across all functions, an understanding of the relationships of the risks of the enterprise, and to ensure that each functional area remains accountable for the risks for which it is responsible.

Board Audit and Risk Committee
The Board Audit and Risk Committee oversees how the management monitors compliance with the Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board Audit and Risk Committee is assisted in these functions by the Internal Audit Function which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit and Risk Committee.

Board Investment Committee
The Board Investment Committee is responsible for assessing risks associated with investment/divestment decisions and monitoring risks associated with the existing portfolio. The Board Investment Committee is assisted by the Management Investment Committee in fulfilling its oversight responsibilities on policy, standards and procedures for investing in a responsible manner.

Management Committee
The Management Committee regularly reviews several aspects of Company's various risks.

(a) Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to credit risk on its bank balances including term deposits, certain loans and receivables included in other assets, and the positive fair value of derivatives. The Group places its deposits with reputable banks with a good financial standing. Derivative contracts are entered into with counterparties with strong credit ratings and are not subject to significant credit risk.

Credit risk with respect to loans and receivables included in other assets is managed by assessing the feasibility of the investment opportunity that is being funded, prior to advancing any funding.

The sale of passenger and cargo transportation is largely achieved through a large number of International Air Traffic Association (IATA) accredited sales agents. Unless expressly stated otherwise in the contract, receivables and payables among airlines are settled either bilaterally or via the IATA clearing house. For all other service relationships, depending on the nature and scope of the service rendered, collateral is required, credit reports/references are obtained and use is made of historical data from previous business relations, especially with regard to payment behaviour, in order to avoid non-performance.

Credit risk with respect to receivables from customers is managed by granting credit terms and monitoring the exposure to customers on an ongoing basis. An impairment allowance is made for doubtful accounts whenever objective evidence of impairment is identified.

The maximum credit risk exposure at the reporting date is equal to the carrying value of the financial assets shown in the consolidated statement of financial position, which are net of impairment allowances.

The Group sells its products to a large number of customers. Its five largest customers account for 21% of the outstanding trade receivable as of 31 December 2022 (2021: 33%).

31 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk (also referred to as funding risk) is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group limits its liquidity risk by managing cash and ensuring bank facilities are available. Trade payables are normally settled within 30 to 150 days of the date of invoice. The Group's cash flows from operations are normally adequate to meet expected liquidity requirements.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates.

31 December 2022	***Less than 3 months BD '000***	***3 to 12 months BD '000***	***1 to 5 years BD '000***	***More than 5 years BD '000***	***Total BD '000***
Borrowings	**114,973**	**183,370**	**1,396,668**	**580,900**	**2,275,911**
Derivatives	**1,926**	**5,313**	**541**	**397**	**8,177**
Lease liabilities	**20,943**	**98,660**	**325,211**	**329,769**	**774,583**
Trade payable and other liabilities	**589,885**	**12,699**	**7,653**	**46**	**610,283**
	727,727	**300,042**	**1,730,073**	**911,112**	**3,668,954**

31 December 2021	*Less than 3 months BD '000*	*3 to 12 months BD '000*	*1 to 5 years BD '000*	*More than 5 years BD '000*	*Total BD '000*
Borrowings	219,279	175,964	1,365,121	835,343	2,595,707
Derivatives	968	7,229	1,706	6,662	16,565
Lease liabilities	7,462	69,018	334,004	360,378	770,862
Trade payable and other liabilities	595,076	14,347	474	-	609,897
	822,785	266,558	1,701,305	1,202,383	3,993,031

Details of capital expenditure commitments are given in note 29.

(c) Market risk

Currency risk

Currency risk is the risk associated with fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Group's financial instruments are mainly denominated in Bahraini Dinars, US Dollars and Pound Sterling. The Group uses forward foreign exchange contracts and currency swaps to hedge against currency fluctuations (note 14).

As the Bahraini Dinar is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

31 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Currency risk (continued)

The table below indicates the Group's sensitivity to currency risk at 31 December 2022, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Bahraini Dinar currency rate by 10% against Euro and Pound Sterling with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities). The effect of decreases in currency rate is expected to be equal and opposite.

	Foreign exchange position long (short)		*Effect on results for the year*	
	2022	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Euro	**(78,559)**	(99,607)	**(7,856)**	(9,961)
Pound Sterling	**(264,365)**	(177,223)	**(26,437)**	(17,722)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or the fair value of financial assets and financial liabilities. The significant portion of the financial assets and financial liabilities are variable interest rate based.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (call account, term deposits, margin deposits and borrowings). This risk is partly mitigated by interest rate derivatives (note 13).

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's net income for one year, based on the floating rate financial assets and financial liabilities.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	Increase/ decrease in basis points	***Effect on results for the year BD '000***
2022	**+100**	(11,652)
	-100	**11,652**
2021	+100	(14,885)
	-100	14,885

Jet fuel price risk

The Group's earnings are affected by changes in the price of jet fuel relating to Gulf Air. A 10% change in the price of jet fuel affects the Group's annual fuel cost by BD 16,016 thousand (2021: BD 5,070 thousand), assuming there is no change in the volume of fuel consumed.

31 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Equity price risk

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in equity prices or indices, or fair value in case of unquoted equities. Equity price risk arises from the Group's investment in equities and managed funds included in investments carried at fair value through statement of income. The Group manages the risk through a process of diversification of its investments in terms of industry concentration.

Investments carried at fair value through statement of income in the level 2 hierarchy comprise of managed funds with underlying quoted securities. Investments carried at fair value through statement of income in the level 3 hierarchy comprise primarily of unquoted equity investments and managed funds with underlying private equity and debt securities.

FVTPL investments

A 10% (2021:10%) increase in the fair value of equities and net asset values of funds will increase the net profit by BD 47,897 thousand (2021: BD 52,804 thousand). The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

(d) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure dynamically and makes necessary adjustments, in light of the macro economic conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity.

	2022	*2021*
	BD '000	*BD '000*
Borrowings (note 13)	**2,032,666**	2,309,544
Lease liabilities (note 15)	**653,484**	584,111
Derivative financial instruments (note 14)	**8,177**	16,565
Total debt	**2,694,327**	2,910,220
Less: cash and bank balances (note 3)	**(276,522)**	(243,467)
Net debt	**2,417,805**	2,666,753
Total equity	**3,305,830**	3,339,367
Gearing ratio	**73%**	80%

32 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivative financial instruments.

Financial assets comprise of investments, deposits, bank balances, certain loans included in other assets and accounts receivable. Financial liabilities comprise of borrowings and trade and other payables.

Investments carried at fair value through the statement of income, derivative financial instruments, and convertible preference shares (liability) are categorized at fair value through profit or loss, all other assets and liabilities are carried at amortised cost.

The fair value of the fixed rate sukuks issued by the Group and the bonds issued by McLaren as of 31 December 2022 is BD 580,416 thousand (2021: BD 668,099 thousand) compared to the carrying value of BD 630,222 thousand (2021: BD 638,650 thousand) (note 13).The fair values of other financial assets and financial liabilities are not materially different from their carrying values at the statement of financial position date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2022	***Level 1 BD '000***	***Level 2 BD '000***	***Level 3 BD '000***	***Total BD '000***
Investments carried at fair value through statement of income	**1,870**	**51,613**	**422,718**	**476,201**
Derivative financial instruments (assets)	**-**	**42,225**	**-**	**42,225**
Derivative financial instruments (liabilities)	**-**	**8,177**	**-**	**8,177**

31 December 2021	*Level 1 BD '000*	*Level 2 BD '000*	*Level 3 BD '000*	*Total BD '000*
Investments carried at fair value through statement of income	2,143	114,286	404,629	521,058
Derivative financial instruments (assets)	-	8,843	-	8,843
Derivative financial instruments (liabilities)	-	16,565	-	16,565

During the years 2022 and 2021 there have been no transfers between Level 1, Level 2 & Level 3.

For level 3 measurements, changing inputs to reasonably possible alternative assumptions will not result in significant change in fair values.

The movements in level 3 financial instruments measured at fair value were as follows:

	2022 BD '000	*2021 BD '000*
Balance at beginning of the year	**404,629**	390,327
Purchases during the year	**9,800**	16,192
Sold during the year	**(7,621)**	(42,227)
Fair value gain on investments carried at fair value though statement of income	**15,596**	39,035
Other movements	**314**	1,302
Balance at end of the year	**422,718**	404,629

33 MATERIAL PARTLY OWNED SUBSIDIARIES

McLaren Group Limited and Aluminium Bahrain B.S.C. (Alba) are partly owned subsidiaries of the Group that have material non-controlling interests. The proportionate ownership interest and voting rights held by non-controlling interests at 31 December 2022 were 40.09% and 30.62% respectively (2021: 40.09% and 30.62% respectively). The summarised financial information of McLaren Group Limited and Alba before intragroup eliminations is set out below:

Summarised statement of financial position for 2022

	McLaren Group Limited		*Alba*	
	2022	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Current assets	**204,300**	254,578	**715,468**	714,584
Non-current assets	**809,282**	901,380	**1,901,716**	1,910,019
Current liabilities	**(156,654)**	(203,230)	**(283,475)**	(411,456)
Non-current liabilities	**(753,825)**	(653,241)	**(511,251)**	(710,127)
Total equity	**103,103**	299,487	**1,822,458**	1,503,020
Attributable to :				
Equity holders of the parent	**61,769**	179,423	**1,264,421**	1,042,795
Non-controlling interests	**41,334**	120,064	**558,037**	460,225
	103,103	299,487	**1,822,458**	1,503,020

Summarised statement of income and comprehensive income for the year ended 31 December 2022

	McLaren Group Limited		*Alba*	
	2022	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Revenue	**290,200**	316,130	**1,840,924**	1,584,838
Net profit / (loss) attributable to:				
Equity holders of the parent	**(106,995)**	63,237	**288,736**	313,507
Non-controlling interests	**(65,468)**	6,208	**127,431**	138,363
	(172,463)	69,445	**416,167**	451,870
Total comprehensive income attributable to:				
Equity holders of the parent	**(122,237)**	56,560	**314,054**	318,118
Non-controlling interests	**(75,667)**	431	**138,605**	140,399
	(197,904)	56,991	**452,659**	458,517

33 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

Summarised statement of cash flows

	McLaren Group Limited		*Alba*	
	2022	*2021*	***2022***	*2021*
	BD '000	*BD '000*	***BD '000***	*BD '000*
Net cash inflow (outflow) from operating activities	**(11,412)**	28,174	**520,511**	292,835
Net cash inflow (outflow) from investing activities	**(39,365)**	437	**(98,691)**	(82,602)
Net cash inflow (outflow) from financing activities	**61,280**	(22,221)	**(430,101)**	(161,692)
Net cash inflow / (outflow)	**10,503**	6,390	**(8,281)**	48,541
Dividends paid to non-controlling interests	**-**	-	**(36,817)**	(11,535)

34 CURRENT AND NON CURRENT ASSETS AND LIABILITIES

The table below provides the analysis of current and non current assets and liabilities:

	Less than one year		*Over one year*	
	2022	*2021*	***2022***	*2021*
	BD ’000	*BD ’000*	***BD ’000***	*BD ’000*
ASSETS				
Cash and bank balances	**276,522**	243,467	**-**	-
Derivative financial instruments	**9,031**	9	**33,194**	8,834
Trade receivable, prepayments and other receivables	**392,456**	452,175	**4,799**	159
Inventories	**475,179**	427,564	**-**	-
Investments carried at fair value through statement of income	**79,616**	140,618	**396,585**	380,440
Investment in associates and joint ventures	**-**	-	**904,756**	949,231
Investment properties	**-**	-	**415,879**	394,156
Property, plant and equipment	**-**	-	**2,835,383**	2,825,312
Intangible assets	**-**	-	**650,141**	716,138
Other assets	**6,972**	3,715	**138,878**	166,073
Goodwill	**-**	-	**74,343**	220,866
	1,239,776	1,267,548	**5,453,958**	5,661,209

	Less than one year		*Over one year*	
	2022	*2021*	***2022***	*2021*
	BD ’000	*BD ’000*	***BD ’000***	*BD ’000*
LIABILITIES				
Borrowings	**231,487**	622,165	**1,801,179**	1,687,379
Derivative financial instruments	**-**	-	**8,177**	16,565
Lease liabilities	**97,025**	55,230	**556,459**	528,881
Trade payable, accruals and other liabilities	**681,572**	665,446	**-**	-
Employees’ end of service benefits	**-**	-	**12,005**	13,724
	1,010,084	1,342,841	**2,377,820**	2,246,549

35 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

i) Variable consideration

Certain contracts for the sale of goods include volume discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods, given the large number of customer contracts that have similar characteristics. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract.

Frequent flyer programme

The Group accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue).

Estimation techniques are used to determine the fair value of mile credits and reflect the weighted average of a number of factors i.e. fare per sector, flight upgrades and partner rewards. A rolling 12-month historical trend forms the basis of the calculations. Adjustments to the fair value of miles are also made for miles not expected to be redeemed by members and the extent to which the demand for an award cannot be met for the dates requested.

A level of judgment is exercised by management due to the diversity of inputs that go into determining the fair value of miles. It is also difficult to present the sensitivity of a change in the value of the assumptions given the complexity of the workings. The carrying amount of the Group's deferred revenue relating to the same as at 31 December 2022 was BD 4,229 thousand (2021: BD 5,564 thousand).

A 10% change in the redemptions pattern will impact the sales and deferred revenue by BD 423 thousand (2021: BD 556 thousand).

35 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments (continued)

Going concern

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

The discount rate used to determine the lease liabilities

The rates used on transition to discount future lease payments were the Group's incremental borrowing rates. The risk-free rate component was based on LIBOR and SOFR rates available in the same currency. For future aircraft lease liabilities, the Group will use the interest rate implicit in the lease.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual values and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of aircraft

In case of aircraft, impairment is recognised when events and circumstances indicate that the aircraft may be impaired and the carrying amounts of the aircraft exceed the recoverable amounts. In determining the recoverable amounts of the aircraft, certain estimates regarding the current fair market value and the base value (value-in-use) of the aircraft are made. The current fair market and the base values are determined based on independent valuations carried out by an industry expert. Accordingly, impairment loss amounting BD 6,117 thousand has been recognised in the consolidated financial statements (2021: BD 15,778 thousand).

Impairment of non-financial assets (including goodwill)

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including key assumptions, are given in notes 8, 9, 11 and 12.

35 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Development costs

The Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2022, the carrying amount of capitalised product development costs was BD 411,964 thousand (2021: BD 450,606 thousand).

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer types).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the consumer sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

At 31 December 2022, gross trade receivables were BD 317,896 thousand (2021: BD 376,093 thousand), and the allowance for ECL was BD 30,900 thousand (2021: BD 29,494 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Group has BD 42,923 thousand (2021: BD 79,242 thousand) of tax losses carried forward. These losses relate to a subsidiary and may not be used to offset taxable income elsewhere in the Group.

36 RUSSIA-UKRAINE CONFLICT

The current ongoing conflict between Russia-Ukraine has triggered a global economic disruption and has, amongst other impacts, led to increased volatility in financials markets and commodity prices due to disruption of supply chain which effected a broad range of entities across different jurisdictions and industries.

Multiple jurisdictions, including the EU, UK and USA have imposed tranches of economic sanctions on Russia. In addition, a large number of companies have announced voluntary actions to curtail business activities with Russia.

Furthermore, a number of Russian publicly listed entities have had their listing suspended on certain stock exchanges and been excluded from market indices. The Russian central bank has temporarily suspended stocks and derivatives trading and barred foreign investors from selling Russian assets and placed significant limitations on payments to foreign entities. The war in Ukraine and related events take place at a time of significant global economic uncertainty and volatility and the effects are likely to interact with and exacerbate the effects if current market conditions.

The Board of Directors has considered the impact of the current economic downturn & volatility and concluded that the impact on the exposure to Russian investments is not material as at 31 December 2022.

37 COMPARATIVES

The comparative figures have been regrouped, where necessary, in order to conform to the current year's presentation. Such regrouping did not affect the previously reported consolidated profit or loss and comprehensive income for the year or total equity.