ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

30 SEPTEMBER 2023

Building a better working world

Ernst & Young
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of ALAFCO Aviation Lease and Finance Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 30 September 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's 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)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern
We draw attention to Note 2 and Note 6, to the consolidated financial statements which states that the Board of Directors considered and General Meeting of Shareholders of the Parent Company convened on 27 December 2022 have approved the sale of a substantial portion of the Group's portfolio of aircrafts and transfer of an order book with a manufacturer. In addition, the Parent Company has been receiving bid offers on the remaining aircrafts fleet. As such, the Board of Directors of the Parent Company acknowledges that there is material uncertainty associated with continuing use of the remaining fleet as market conditions in the future could provide better returns to shareholders through a sale opportunity. These conditions, along with other matters stated in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of aircraft and engines

As at 30 September 2023, aircraft and engines are carried at KD 348,053,668 as disclosed in Note 5. The impairment test of aircraft and engines performed by the management is significant to our audit due to the size of the assets' carrying value as well as the judgement involved in the assessment of recoverable amounts of aircraft and engines, which are based on value-in-use or fair value less costs to sell. Value-in-use basis is complex and requires considerable judgment on the part of management such as estimates of future cash flows and discount rate variables which includes risk free rate, equity risk premium, beta in the relevant industry sector and estimation of cost of debt based on the Group's total debt/equity balances. Fair value less costs of sell is based on models adopted by the management using published reports of aircraft values or recent bid price offers. The published reports of aircraft values include the value of aircrafts in the current year considering the model and date of manufacturing of each aircraft, while the recent bid price offers represent the value of the aircrafts from the perspective of willing third party Therefore, we identified the impairment testing of aircraft and engines as a key audit matter.

Our audit procedures to assess the impairment testing of aircraft and engines included the following:

- Assessing the knowledge and expertise of the management of the Group to perform such impairment assessment;

- Evaluating and challenging the key assumptions and methodologies used by the management;

- Assessing the appropriateness of the valuation technique used and evaluating the key assumptions used by the management in determining the fair value less costs to sell which includes benchmarking the fair value with the published reports of aircraft values;

- Reviewing the supporting documents relating to recent bid offers obtained by the management of the Parent Company;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Expected Credit Losses ("ECL") on receivables

As at 30 September 2023, lease and maintenance receivables amounted to KD 9,234,909 net off expected credit loss of KD 17,561,121 as disclosed in Note 8.

The Group applies a simplified approach in calculating ECL for receivables by establishing a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment in which each debtors operate. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns.

Due to the significance of receivables and the complexity involved in the ECL calculation, this was considered as a key audit matter.

Our audit procedures included, among others, the following:

- Assessing the reasonableness of the assumptions used in the ECL calculation by comparing them with historical data adjusted for current market conditions and forward-looking information;
- Performing substantive procedures to test, on a sample basis, the completeness and accuracy of the information included in the debtors' ageing report;
- Further, in order to evaluate the appropriateness of management judgements, we verified on a sample basis, the customer's historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures; and
- Considering the adequacy of the Group's disclosures relating to the ECL, management's assessment of the credit risk and their responses to such risks in Note 23.1 to the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2023 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2023 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2023 Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 that we obtained prior to the date of this auditor's 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 Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as management 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, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgment 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 management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditor's 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 auditor's 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016 as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016 as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 30 September 2023 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 30 September 2023 that might have had a material effect on the business of the Parent Company or on its financial position.

ABDULKARIM ALSAMDAN
LICENCE NO. 208-A
EY
AL AIBAN, AL OSAIMI & PARTNERS

26 December 2023
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

	Notes	*2023* *KD*	*2022* *KD*
ASSETS			
Aircraft, engines and equipment	5	**348,065,676**	1,067,295,751
Capital advances	7	**34,996,316**	88,478,441
Receivables and other assets	8	**33,969,921**	25,326,718
Bank balances and cash		**13,105,157**	25,113,155
		430,137,070	1,206,214,065
Assets held for sale	6	**455,718,036**	-
TOTAL ASSETS		**885,855,106**	1,206,214,065
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	**95,209,348**	95,209,348
Share premium	9	**17,829,167**	17,829,167
Statutory reserve	10	**29,571,005**	29,571,005
Foreign currency translation reserve		**17,807,900**	19,829,279
Retained earnings		**60,433,519**	61,583,713
TOTAL EQUITY		**220,850,939**	224,022,512
LIABILITIES			
Due to financial institutions	11	**547,390,298**	833,969,170
Security deposits	12	**4,169,525**	12,450,499
Maintenance reserve and provisions	13	**32,356,235**	115,121,641
Other liabilities	14	**13,118,828**	20,650,243
		597,034,886	982,191,553
Liabilities directly associated with assets classified as held for sale	6	**67,969,281**	-
TOTAL LIABILITIES		**665,004,167**	982,191,553
TOTAL EQUITY AND LIABILITIES		**885,855,106**	1,206,214,065

Sami Abdullatif AlNusif
Chairman of the Board

Ahmad Abdulaziz Alnafisi
Board Member

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 September 2023

	Notes	***2023*** ***KD***	*2022* *KD*
Operating lease income	15	**35,856,738**	95,642,934
Murabaha income		**161,177**	42,536
Gain on disposal of aircraft, engines and equipment	5 & 6	**1,384,569**	3,285,945
Other income	16	**28,718,288**	13,030,490
Staff costs		**(3,770,084)**	(2,425,386)
Depreciation	5	**(15,883,644)**	(50,577,935)
Impairment loss on aircraft, engines and equipment	5	**-**	(44,729,386)
Impairment loss on capital advances	7	**-**	(31,744,431)
Other operating expenses		**(4,325,156)**	(8,833,692)
Reversal of credit loss on receivables	8	**2,170,335**	4,614,065
Finance costs		**(45,462,417)**	(37,250,745)
LOSS FOR THE YEAR		**(1,150,194)**	(58,945,605)
Basic and diluted loss per share	4	**(1.21) fils**	(61.91) fils

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2023

	2023	*2022*
	KD	*KD*
Loss for the year	**(1,150,194)**	(58,945,605)
Other comprehensive (loss) income:		
Items that are not reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**(2,021,379)**	7,176,476
Other comprehensive (loss) income for the year	**(2,021,379)**	7,176,476
Total comprehensive loss for the year	**(3,171,573)**	(51,769,129)

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2023

	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Total KD*
As at 1 October 2022	**95,209,348**	**17,829,167**	**29,571,005**	**19,829,279**	**61,583,713**	**224,022,512**
Loss for the year	-	-	-	-	**(1,150,194)**	**(1,150,194)**
Other comprehensive loss for the year	-	-	-	**(2,021,379)**	-	**(2,021,379)**
Total comprehensive loss for the year	-	-	-	**(2,021,379)**	**(1,150,194)**	**(3,171,573)**
At 30 September 2023	**95,209,348**	**17,829,167**	**29,571,005**	**17,807,900**	**60,433,519**	**220,850,939**
As at 1 October 2021	95,209,348	17,829,167	29,571,005	12,652,803	120,529,318	275,791,641
Loss for the year	-	-	-	-	(58,945,605)	(58,945,605)
Other comprehensive income for the year	-	-	-	7,176,476	-	7,176,476
Total comprehensive income (loss) for the year	-	-	-	7,176,476	(58,945,605)	(51,769,129)
At 30 September 2022	95,209,348	17,829,167	29,571,005	19,829,279	61,583,713	224,022,512

The attached notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2023

	Notes	***2023*** ***KD***	*2022* *KD*
OPERATING ACTIVITIES			
Loss for the year		**(1,150,194)**	(58,945,605)
Adjustments to reconcile loss for the year to net cash flows:			
Depreciation	5	**15,883,644**	50,577,935
Impairment loss on aircraft, engines and equipment	5	**-**	44,729,386
Impairment loss on capital advances	7	**-**	31,744,431
Murabaha income		**(161,177)**	(42,536)
Finance costs		**45,462,417**	37,250,745
Reversal of credit loss on receivables	8	**(2,170,335)**	(4,614,065)
Gain on disposal of aircraft, engines and equipment	5 & 6	**(1,384,569)**	(3,285,945)
		56,479,786	97,414,346
Changes in operating assets and liabilities:			
Receivables and other assets		**(13,254,134)**	(4,837,733)
Other liabilities (includes security deposits and liabilities relating to assets held for sale)		**36,954,862**	(679,134)
Maintenance reserve and provisions		**(6,274,978)**	(1,288,314)
Cash from operations		**73,905,536**	90,609,165
Finance costs paid		**(42,556,143)**	(36,180,513)
Net cash flows from operating activities		**31,349,393**	54,428,652
INVESTING ACTIVITIES			
Purchase of aircraft, engines and equipment	5	**(1,029,386)**	(1,353,857)
Proceeds from disposal of aircraft, engines and equipment		**218,922,014**	11,853,931
Proceeds from transfer of Boeing order book	7	**21,563,500**	-
Capital advances for purchase of aircraft, engines and equipment	7	**(107,975)**	(1,201,033)
Murabaha income received		**161,665**	43,580
Net cash flows from investing activities		**239,509,818**	9,342,621
FINANCING ACTIVITIES			
Proceeds from financing facilities	11	**24,644,000**	42,897,292
Repayment of financing facilities	11	**(307,458,452)**	(126,954,934)
Net cash flows used in financing activities		**(282,814,452)**	(84,057,642)
NET DECREASE IN BANK BALANCES AND CASH		**(11,955,241)**	(20,286,369)
Foreign currency adjustment		**(52,757)**	3,305,904
Bank balances and cash at the beginning of the year		**25,113,155**	42,093,620
BANK BALANCES AND CASH AT THE END OF THE YEAR		**13,105,157**	25,113,155

The attached notes 1 to 25 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

ALAFCO Aviation Lease and Finance Company K.S.C.P. (ALAFCO) (the "Parent Company") is a Kuwaiti shareholding company registered and incorporated in Kuwait on 21 March 2000. The Parent Company is engaged in providing service to buy aircraft and other related assets on behalf of the aviation companies, coordinating with factories, providing asset management services to different aviation companies, providing operating lease or financing lease services commensurate with the needs and desires of aviation company customers, providing project financing to buy aircraft wholly or partly in light of the evaluation studies and the renewal of risk factors associated with such projects, marketing of aircraft to meet the needs of medium-and long-term for aviation companies wishing with such services, assisting aviation companies in the marketing of their aircraft through selling and leasing, participation in providing services associated with financing and providing technical support to aviation companies, assistance in the joint investment operations and specialized in aviation industry, Wholly or partly investment in providing aircraft, engines and spare parts as appropriate to needs of aviation companies and factories customers, and Management and investment of revenues generated and collected from the above-mentioned operations. The Parent Company may have an interest or to participate in any aspect in other entities conducting similar activities or which may assist in achieving its objectives in Kuwait or abroad and it may establish, participate or buy these bodies or in their equity.

The Parent Company operates in accordance with the Islamic Sharia'a principles. The Parent Company's registered head office is at Kuwait Chamber of Commerce and Industry Building Annexe, Second Floor, Abdul Aziz Hamid Al Sagar Street, Al-Mirqab, Kuwait.

The shares of the Parent Company are listed on Boursa Kuwait.

The Parent Company is an associate of Kuwait Finance House K.S.C.P. (the "Bank") and Gulf Investment Corporation S.A.G. (GIC).

The consolidated financial statements include transactions and balances of the Parent Company and wholly owned Special Purpose Companies (SPC's) (its subsidiaries), together referred to as the "Group". All the transactions of SPC's are entered on behalf of ALAFCO and are guaranteed by ALAFCO.

The shareholders of the Parent Company at the annual general assembly meeting ("AGM") held on 16 February 2023 approved the consolidated financial statements of the Group for the year ended 30 September 2022 and resolved not to distribute any dividends for the year then ended.

The consolidated financial statements of the Group for the year ended 30 September 2023 were authorised for issue in accordance with a resolution of the board of directors on 25 December 2023 and are issued subject to the approval of the Annual General Assembly of the Shareholders' of the Parent Company. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

2 FUNDAMENTAL ACCOUNTING CONCEPT

The management and the Board of Directors of the Parent Company have taken a number of actions to ensure best possible returns and meeting liquidity requirements as disclosed in Note 23.2:

- As disclosed in Note 6, the Board of Directors of the Parent Company considered, and the General Meeting of Shareholders convened on 27 December 2022 have approved the sale of 53 aircrafts (72% of the Group's portfolio of aircrafts) and transfer of an order book with a manufacturer. On 21 June 2023, the Group has completed the sale of 24 aircrafts by transferring the Group's shares in the SPCs which are holding those aircrafts to the Buyer. Furthermore, on 22 September 2023, the Group has completed the sale of 1 additional aircraft.

- The sale of 25 aircrafts has generated net cash proceeds of USD 138.48 million (approximately, KD 42.66 million) after settling secured financing facilities, of which KD 46,207,500 relates to the Bank and KD 112,890,037 relates to other financial institutions.

- The sale of the remaining 28 aircrafts is expected to generate net cash proceeds of USD 390.91 million (approximately, KD 120.42 million) after settling financing facilities, of which KD 20,713,786 relates to the Bank and KD 275,323,002 relates to other financial institutions.

- The Management and the Board of Directors of the Parent Company expects the execution of the sale to be completed within 12 months of signing the Sale Agreement, but also acknowledges that there is an inherent uncertainty associated with market conditions, buyer's conditions, and legal complexity associated with the transaction that might affect the timely execution and therefore the expected settlement of the related financing facilities.

2 FUNDAMENTAL ACCOUNTING CONCEPT (continued)

- After the execution of the sale transaction for the remaining aircrafts, the Group would still have 23 aircrafts in operations (refer to the future minimum lease rent disclosed in Note 15) for which the Board of Directors of the Parent Company believes – up to the date of issuance of the consolidated financial statements – that the Group will continue in the normal course of business. However, the Board of Directors of the Parent Company acknowledges that there is material uncertainty associated with continuing use of the remaining fleet as market conditions in the future could provide better returns to shareholders through a sale opportunity, which would be subject to the approval of shareholders.

As such, the Board of Directors of the Parent Company has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The consolidated financial statements do not include any adjustment relating to the recoverability and classification of recorded assets and classification of liabilities which may be necessary if the Group is unable to continue as a going concern.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

3.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are prepared under the historical cost convention.

The functional currency of the Parent Company is US dollars ("USD"). The consolidated financial statements have been presented in Kuwaiti Dinars ("KD").

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except as mentioned below:

New and amended standards and interpretations
The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 October 2022.

The nature and the impact of each new standard and amendment is described below:

Several other amendments and interpretations apply for the first time during the year ended 30 September 2023, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (continued)
In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the year.

3.3 STANDARDS ISSUED BUT NOT EFFECTIVE

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

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

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

The amendments are effective for reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (continued)
The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of the amendments.

3.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (together, the "Group") as at 30 September 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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. 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.

Each component of the consolidated statements of income and comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a 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 consolidated statement of income. Any investment retained is recognised at fair value.

As mentioned in Note 1, the activities of the SPC's are entered on behalf of ALAFCO. The consolidated financial statements include the financial statements of ALAFCO and its subsidiaries ("SPC's") incorporated in Cayman Islands, Ireland, United Kingdom, Delaware (USA) and United Arab Emirates as listed in the following table for the year ended 30 September 2023.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.4 BASIS OF CONSOLIDATION (continued)

SPCs directly held:

Name	*Country of incorporation*	*Share capital US$/ Pound*	*Activities*
Osprey Aircraft Leasing Limited (Thirteen)	Cayman Islands	US$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Fifteen)	Cayman Islands	US$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Eighteen)	Cayman Islands	US$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty Four)	Cayman Island	US$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Mansuria Limited	Cayman Islands	US$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Two Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco (DIFC) One SPC Limited	United Arab Emirates	US$ 1,000	Purchasing, financing, leasing and subleasing of aircraft
Alafco (DIFC) Two SPC Limited	United Arab Emirates	US$ 1,000	Purchasing, financing, leasing and subleasing of aircraft
Alafco Aviation One PCC Limited	United Arab Emirates	US$ 100	Purchasing, financing, leasing and subleasing of aircraft
Alafco Aviation Lease and Finance Designated Activity Company	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Salwa Aircraft Leasing (One) Limited	Delaware, USA	US $1,000	Purchasing, financing, leasing and subleasing of aircraft.
Fintas Aviation Leasing UK Three Limited	United Kingdom	Pound £1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco One Limited	Cayman Islands	US$ 50,000	Purchasing, financing, leasing and subleasing of aircraft.
Adhan Aircraft Leasing 4 Limited	Cayman Islands	US$ 50,000	Purchasing, financing, leasing and subleasing of aircraft.
MSN 308 Limited	Cayman Islands	US$ 50,000	Purchasing, financing, leasing and subleasing of aircraft.
MSN 323 Limited	Cayman Islands	US$ 50,000	Purchasing, financing, leasing and subleasing of aircraft.
MSN 338 Limited	Cayman Islands	US$ 50,000	Purchasing, financing, leasing and subleasing of aircraft.

SPCs held through Alafco Aviation Lease and Finance Designated Activity Company:

Name	*Country of incorporation*	*Share capital US$/Euro /Pound*	*Activities*
Alafco Irish Aircraft Leasing Six Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Eight Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Twelve Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Thirteen Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Sixteen Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Seventeen Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.4 BASIS OF CONSOLIDATION (continued)

SPCs held through Alafco Aviation Lease and Finance Designated Activity Company:

Name	*Country of incorporation*	*Share capital US$/Euro /Pound*	*Activities*
Alafco Irish Aircraft Leasing Eighteen Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Twenty One Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Twenty Two Limited	Ireland	US$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Purplerail DAC	Ireland	€1.00	Purchasing, financing, leasing and subleasing of aircraft.
Silverraven DAC	Ireland	€1.00	Purchasing, financing, leasing and subleasing of aircraft.

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Aircraft, engines and equipment
Aircraft, engines and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on cost less residual value over the estimated useful lives as follows:

▸ Aircraft and engines (excluding Buyer Furnished Equipment – wide body aircraft)	25 years (from the date of original manufacture)
▸ Buyer Furnished Equipment (BFE) - wide body aircraft	12 years (from the date of purchase)
▸ Furniture and fixtures	5 years
▸ Office equipment	5 years

An item of aircraft, engines 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 income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of the assets are reviewed and adjusted prospectively, if appropriate.

Non-current assets held for sale
The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Aircraft, engines and equipment are not depreciated once classified as held for sale.

Assets classified as held for sale are presented separately in the consolidated statement of financial position.

Cash and cash equivalents
Cash and cash equivalents comprise of cash and balances with financial institutions and short-term murabahas with financial institutions with original maturities of three months or less from the date of placement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Maintenance reserve and provisions

Maintenance reserve and provisions comprise of maintenance reserve, heavy maintenance provision, re-lease provision, and lessor contributions.

Maintenance reserve

Maintenance reserve represents payments made by the lessee for usage of the aircraft and is offset against actual maintenance expenses as and when incurred on the aircraft. At the time of disposal of aircraft, the remaining balance of maintenance reserve is recognised as income in the consolidated statement of income.

Heavy maintenance provision

The heavy maintenance provision represents the heavy maintenance costs associated with the preparation and transition of an aircraft to a new lessee. This includes any costs related to heavy maintenance overhauls not covered by previously collected maintenance reserve. Heavy maintenance provisions are recognised when the Group believes it is probable that the costs will be incurred and the amount is reasonably estimated.

Re-lease provision

Re-lease provision represents the Group's best estimate of the costs associated with the preparing and transitioning of an aircraft from one lessee to another. These are recognised 2-3 years before the expiry of current lease when the future economic outflow is probable and the amount of the provision can be reliably measured.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance reserve and provisions (continued)

Lessor contributions
At the beginning of each new lease subsequent to the first lease on a new aircraft, lessor contributions representing contractual obligations on the part of the Group to contribute to the lessee's cost of the next planned major maintenance event, expected to occur during the lease, are established. The Group regularly reviews the level of lessor contributions to cover its contractual obligations under current lease contracts and makes adjustments as necessary.

Lessor contributions represent a lease incentive and are recorded as a charge against lease rental income over the life of the associated lease.

Lessor contributions in respect of end of lease adjustments are recognised when the Group believes it is probable that it will be required to reimburse amounts to a lessee and the amount can be reasonably estimated.

Borrowing costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised, if they are directly attributable to a qualifying asset, as part of capital advances over the period of the construction until the aircraft concerned is completed and delivered on the basis of actual borrowings and actual expenditure incurred on the purchase of the aircraft. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the aircraft for its intended use are complete.

Foreign currency translation
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of the Group are translated from the functional currency (US Dollar) into the presentation currency (Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and the consolidated statement of income items are translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to other comprehensive income.

Revenue recognition
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 concluded that it is the principal in all of its revenue arrangements since it typically controls the goods or services before transferring them to the customer.

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

Sale of aircraft
Revenue from sale of aircraft is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the aircraft.

In determining the transaction price for the sale of aircraft, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash 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 aircraft 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. The Group has no contracts with a right of return.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(ii) Significant financing component
Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, 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 aircraft to the customer and when the customer pays for that aircraft will be one year or less. The Group does not receive any long term advances from customers.

Operating lease income
Operating lease income comprises of (i) lease rental income from aircraft leasing which is recognised on a straight-line basis in accordance with the lease agreement, (ii) release of maintenance reserves and (iii) is net of amortisation of lease incentive assets.

Consultancy and service income
Consultancy and service income is recognised when services are rendered.

Murabaha income
Murabaha income is recognised on effective yield basis.

Kuwait Foundation for the Advancement of Sciences (KFAS)
The Group calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that the directors' fees, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)
The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year.

Zakat
The Group provides for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of income.

Impairment of non-financial assets
At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 the fair value less costs to sell, an appropriate valuation model is used.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition

a) Recognition and initial measurement

Receivables and other assets are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at financial asset at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A receivable without a significant financing component is initially measured at the transaction price.

b) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is measured at: amortised cost or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All financial assets not classified at amortised cost as described above are measured at FVTPL.

The Group's financial assets include bank balances and cash and receivables and other assets which are measured at amortised cost.

Financial assets – Subsequent measurement and gains and losses:

▸ Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any finance or dividend income, are recognised in the consolidated statement of income.
▸ Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment losses. Finance income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit method.

The Group's financial liabilities include due to financial institutions, security deposits, and other liabilities.

Subsequent measurement

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

Other liabilities

Other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

c) Derecognition

Financial assets

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

Determination of expected credit losses (ECL) on bank balances and cash and receivables and other assets

For 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.

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider 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.

The Group does not determine ECLs on bank balances and cash as these are considered to be of low risk and the Group does not expect to incur any credit losses on these instruments.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

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

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

The principal or the most advantageous market must be accessible to 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.

Employees' end of service benefits

The Group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to its national employees, the Group also makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

3.6 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Judgments

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit.

Depreciation of aircraft, engines and equipment

Management assigns useful lives and residual values to aircraft, engines and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.6 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments (continued)

Residual value of aircraft, engines and equipment
Management decides on the appropriateness of residual value used at each reporting date. Management obtains independent published valuations, based on certain industry valuation techniques, of its fleet of aircraft to determine the residual values every year. On a conservative basis, management adopts a policy of discounting these valuations as it does not believe that these amounts would be realisable in open market transactions. As a result, the actual residual values could differ from initial estimates. Based on the above exercise, the residual value of the fleet approximates 15% of the purchase price (in aggregate) except for BFE – wide body aircraft which does not have a residual value.

Determining the lease term of contracts with renewal and termination options – Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate a lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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

Impairment of aircraft, engines and equipment
A decline in the value of aircraft could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:
- significant decline in the market value beyond that which would be expected from the passage of time or normal use,
- significant changes in the technology and regulatory environments,
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Aircraft heavy maintenance provisions
Management estimates the maintenance costs and the costs associated with the overhaul/ restitution of major components of aircraft such as engines and life-limited parts as per new operating lease agreements. The calculation of such costs includes a number of variable factors and assumptions, such as

- the anticipated utilisation of the aircraft,
- cost of maintenance and
- the remaining lifespan of the engines/life-limited parts at the time when the aircraft would be delivered to the new lessees.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

3.6 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Impairment of financial assets at amortised cost
The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

4 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share are calculated by dividing loss for the year by the weighted average number of ordinary shares outstanding during the year, as follows:

	2023	*2022*
Loss for the year (KD)	**(1,150,194)**	(58,945,605)
Weighted average number of ordinary shares	**952,093,482**	952,093,482
Basic and diluted loss per share	**(1.21) fils**	(61.91) fils

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

5 AIRCRAFT, ENGINES AND EQUIPMENT

	Aircraft and engines KD	***Furniture and fixtures KD***	***Office equipment KD***	***Total KD***
Cost				
At 1 October 2022	**1,479,869,621**	**341,344**	**184,666**	**1,480,395,631**
Additions	**1,023,210**	**-**	**6,176**	**1,029,386**
Transfer from capital advances (Note 7)	**31,229,625**	**-**	**-**	**31,229,625**
Disposals	**(27,415,477)**	**-**	**-**	**(27,415,477)**
Transferred to assets held for sale *	**(959,086,719)**	**-**	**-**	**(959,086,719)**
Foreign currency adjustment	**(4,690,983)**	**(3,078)**	**(1,664)**	**(4,695,725)**
At 30 September 2023	**520,929,277**	**338,266**	**189,178**	**521,456,721**
Depreciation and impairment				
At 1 October 2022	**412,586,931**	**341,155**	**171,794**	**413,099,880**
Depreciation charge for the year	**15,876,557**	**190**	**6,897**	**15,883,644**
Disposal	**(12,959,554)**	**-**	**-**	**(12,959,554)**
Transferred to assets held for sale *	**(241,132,011)**	**-**	**-**	**(241,132,011)**
Foreign currency adjustment	**(1,496,314)**	**(3,079)**	**(1,521)**	**(1,500,914)**
At 30 September 2023	**172,875,609**	**338,266**	**177,170**	**173,391,045**
Net carrying amount				
At 30 September 2023	**348,053,668**	**-**	**12,008**	**348,065,676**

* Aircraft with carrying value of KD 717,954,708 has been transferred to assets held for sale during the year (Note 6).

5 AIRCRAFT, ENGINES AND EQUIPMENT (continued)

	Aircraft and engines KD	*Furniture and fixtures KD*	*Office equipment KD*	*Total KD*
Cost				
At 1 October 2021	1,474,352,447	331,295	175,559	1,474,859,301
Additions	1,350,074	-	3,783	1,353,857
Transfer from capital advances (Note 7)	713,172	-	-	713,172
Disposals	(41,260,440)	-	-	(41,260,440)
Foreign currency adjustment	44,714,368	10,049	5,324	44,729,741
At 30 September 2022	1,479,869,621	341,344	184,666	1,480,395,631
Depreciation and impairment				
At 1 October 2021	324,269,633	330,711	159,972	324,760,316
Depreciation charge for the year	50,570,696	274	6,965	50,577,935
Impairment loss on aircraft, engines and equipment	44,729,386	-	-	44,729,386
Disposal	(18,737,605)	-	-	(18,737,605)
Foreign currency adjustment	11,754,821	10,170	4,857	11,769,848
At 30 September 2022	412,586,931	341,155	171,794	413,099,880
Net carrying amount at 30 September 2022	1,067,282,690	189	12,872	1,067,295,751

Aircraft with carrying value of KD 328,337,879 (2022: KD 1,046,153,558) are mortgaged against the financing facilities with the legal title of the same with the lenders (Note 11).

During the year ended 30 September 2023, the Group recognized gain of KD 1,437,768 (2022: KD 3,285,945) from the sale of certain aircrafts.

During the year ended 30 September 2023, the Group has not recorded impairment loss (2022: KD 44,729,386) as the recoverable amount of aircrafts is higher than the net book value as of 30 September 2023. The recoverable amount was determined based on the higher of the fair value less costs to sell and the value in use.

The fair value less costs to sell is based on models adopted by the management using external valuation reports or recent bid price offers. The external valuation reports include the value of aircraft in the current year considering the model and date of
manufacturing of each aircraft.

The value in use represents the present value of future cash flows of lease rental and residual value of each aircraft. The cash flows were discounted at a rate of 7.15%.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

- Future cash flows of lease rental and residual value
- Discount rate

Future cash flows of lease rental and residual value
Future cash flows of lease rental expected to be received from lessees of aircraft are determined using the signed lease agreements (considering any subsequent amendments made to the lease terms). The future cash flows of residual value are estimated based at 15% of the purchase price of aircraft in accordance with the Group's accounting estimate disclosed in Note 3.6.

Discount rates
The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the profit-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated periodically based on publicly available market data.

5 AIRCRAFT, ENGINES AND EQUIPMENT (continued)

Sensitivity to changes in assumptions
Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the aircraft, engines and equipment to exceed its recoverable amount and accordingly lead to further impairment. These are summarised below:

- A decline in the monthly lease rental by 5%.
- A decline in the residual value of aircraft by 5%.
- A rise in the discount rate by 25 basis points.

The above sensitivity analyses is based on a change in an assumption while holding all other assumptions constant.

6 NON-CURRENT ASSETS HELD FOR SALE

On 29 November 2022, the Board of Directors of the Parent Company announced that they have reviewed and discussed the proposal for the sale of certain assets of the Group to “Macquarie Airfinance Group Limited” (the Buyer).

The agreements which the Group has entered into with the Buyer are relating to the following:

1- Sale and purchase agreement for the sale of 53 aircrafts from the Group’s portfolio.
2- A framework agreement in respect of transferring the order book with Boeing to the Buyer.

The total sale price with regards to sale of 53 aircrafts in addition to transfer of the order book of Boeing, is USD 2.215 billion (approximately, KD 684 million).

The General Meeting of the Shareholders convened on 27 December 2022 approved the proposed sale transaction referred to by the Parent Company’s Board of Directors including the economic closing date (ECD) as of 30 September 2022, following which the sale and purchase agreement was signed with the buyer on 27 December 2022. The management has initiated the actions to complete the sale which is expected to be completed within one year. Accordingly, management has re-classified the carrying value of the 53 aircrafts amounting to KD 717,954,708 as of 1 October 2022 from “aircraft, engines and equipment” to “assets held for sale” and re-classified the related liabilities amounting to KD 70,472,154 to “liabilities directly associated with assets classified as held for sale”.

During the current year, on 12 June 2023, the management of the Group has signed an amendment agreement with the Buyer in which the total sale price was reduced by USD 6 Mn (approximately, KD 2.67 million) and one aircraft has been removed from the sale transaction. Subsequently, the Group has entered into a sale agreement with another buyer in respect of sale of this aircraft, and the related aircraft was sold on 22 September 2023. Such amendment agreement was entered into between the parties due to the unprecedented circumstances in the market which is considered immaterial considering the total transaction value.

No operating lease income and depreciation expenses relating to the assets classified as held for sale was recorded in the consolidated statement of income for the year ended 30 September 2023, in line with the approved sale and purchase agreement for the sale of 53 aircrafts. The operating lease income and depreciation relating to these assets in the corresponding period in the previous year amounted to KD 63,853,348 and KD 27,223,166 respectively. Further, the Group has recognised finance income representing compensation from the Buyer for the lost income resulting from pending transfer of the aircrafts to the Buyer with effect from the ECD date (i.e., 1 October 2022) amounting to KD 25,713,349 in other income (Note 16).

Movement on assets held for sale during the year ended 30 September 2023 is as follows:

	Assets held for sale KD
As of 1 October 2022	**-**
Transfer from aircraft, engines, and equipment	**717,954,708**
Disposal during the year *	**(255,769,652)**
Foreign currency translation adjustment	**(6,467,020)**
As of 30 September 2023	**455,718,036**

6 NON-CURRENT ASSETS HELD FOR SALE (continued)

Movement on liabilities directly associated with assets classified as held for sale during the year ended 30 September 2023 is as follows:

	Liabilities directly associated with assets classified as held for sale KD
As of 1 October 2022	-
Transfer from maintenance reserve and security deposits (Note 12 and 13)	**70,472,154**
Cash collection of lease rent and maintenance reserve after ECD	**42,184,760**
Disposal during the year *	**(40,606,924)**
Other movements	**(3,445,927)**
Foreign currency translation adjustment	**(634,782)**
As of 30 September 2023	**67,969,281**

* During the current year, on 21 June 2023, the Group has completed the sale of 24 aircrafts by transferring the Group's shares in the SPCs which are holding those aircrafts to the Buyer. Furthermore, on 22 September 2023, the Group has completed the sale of 1 additional aircraft. The Group recognized loss of KD 53,199 from the sale of these 25 aircrafts.

During the current year, the Group has also completed the novation of the Boeing order book to the Buyer pursuant to the framework agreement executed on 8 January 2023.

The total sale price with regards to sale of the remaining 28 aircrafts, is USD 1.454 billion (approximately, KD 448 million) as per the signed sale and purchase agreements.

The execution of the sale of the remaining 28 aircrafts is expected to:

- Reduce the balance "due to financial institutions" from KD 547.39 million to KD 236.3 million within one year.
- Reduce the minimum lease rent receivable within 5 years from KD 643.2 million to KD 293 million (Note 15).

Assets held for sale with carrying value of KD 436,427,758 (30 September 2022: KD Nil) are mortgaged against the financing facilities and registered in the name of the lenders.

7 CAPITAL ADVANCES

	2023 KD	*2022 KD*
At 1 October	**88,478,441**	116,831,393
Additional payments	**107,975**	1,201,033
Transfer to aircraft, engines and equipment (Note 5)	**(31,229,625)**	(713,172)
Transfer of Boeing order book to the Buyer (Note 6)	**(21,563,500)**	-
Impairment	-	(31,744,431)
Foreign currency adjustment	**(796,975)**	2,903,618
	34,996,316	88,478,441

Capital advances represent progress payments made towards the purchase of aircraft and engines.

Subsequent to the year-end, on 14 November 2023, the Group has signed a termination agreement with the manufacturer relating to the existing order book, and accordingly, the capital advances amounting to KD 34,996,316 as of 30 September 2023 has been fully refunded subsequent to the year-end.

8 RECEIVABLES AND OTHER ASSETS

	2023 ***KD***	*2022* *KD*
Lease and maintenance receivables	**26,796,030**	44,021,648
Less: Allowance for expected credit losses	**(17,561,121)**	(25,376,798)
	9,234,909	18,644,850
Receivables from a manufacturer	**54,293**	464,867
Prepayments and advances	**294,997**	599,603
Lease incentive assets *	**-**	2,246,488
Finance income receivable **	**20,212,568**	-
Other assets	**4,173,154**	3,370,910
	33,969,921	25,326,718

* The lease incentive assets represent lessor contributions to the cost of maintenance events during current leases. This asset is amortized over the respective lease terms and amortization is recorded as a reduction of lease rental income (Note 15). During the current year, the related aircrafts have been sold and accordingly, the lease incentives has been adjusted against the sale transaction.

** Finance income represents compensation from the Buyer of the 52 aircrafts, disclosed in Note 6, for the lost income resulting from pending transfer of the aircrafts to the Buyer. It represents an amount equal to the sale price multiplied by an agreed rate and which is recorded from 1 October 2022 until the date of transfer of the aircrafts to the Buyer. The Group has collected the finance income relating to the 24 aircrafts which were transferred to the Buyer during the year. The finance income receivable recorded as of 30 September 2023 relates to the remaining 28 aircrafts which are yet to be transferred to the Buyer and will be collected upon completion of the transfer to the Buyer.

Set out below is the movement in the allowance for expected credit losses of lease and maintenance receivables:

	2023 ***KD***	*2022* *KD*
At 1 October	**25,376,798**	34,187,319
Reversal of credit loss on receivables during the year	**(2,170,335)**	(4,614,065)
Write offs during the year	**(5,410,187)**	(5,140,319)
Foreign currency adjustment	**(235,155)**	943,863
At 30 September	**17,561,121**	25,376,798

Information about the credit exposures are disclosed in Note 23.1.

9 SHARE CAPITAL AND SHARE PREMIUM

Share capital
The authorized, issued and fully paid share capital as at 30 September 2023 comprises 952,093,482 ordinary shares (2022: 952,093,482 ordinary shares) of 100 fils each paid in cash and bonus shares.

Share premium
Share premium is not available for distribution.

10 STATUTORY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before directors' fees and contribution to KFAS, NLST and Zakat shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. No transfer is required in the year losses are incurred.

10 STATUTORY RESERVE (continued)

The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice unless such reserve exceeds 50% of the issued share capital.

11 DUE TO FINANCIAL INSTITUTIONS

	2023	*2022*
	KD	*KD*
Balance due to financial institutions - financing against aircraft	**488,011,363**	695,979,839
Unsecured financing facilities	**63,102,034**	145,527,940
	551,113,397	841,507,779
Less: deferred financing arrangement fees	**(3,723,099)**	(7,538,609)
	547,390,298	833,969,170

Obligation under secured financing arrangements

Future minimum payments under agreements together with the present value of the payments are as follows:

	2023		*2022*	
	Minimum payments KD	***Present value of payments KD***	*Minimum payments KD*	*Present value of payments KD*
Within one year	**118,644,509**	**95,401,457**	156,218,585	129,194,534
After one year but not more than five years	**314,824,452**	**269,513,676**	478,981,591	419,872,197
After 5 years	**143,705,447**	**123,096,230**	169,821,347	146,913,108
Total minimum payments	**577,174,408**	**488,011,363**	805,021,523	695,979,839
Less: amounts representing finance charges	**(89,163,045)**	**-**	(109,041,684)	-
Present value of minimum payments	**488,011,363**	**488,011,363**	695,979,839	695,979,839

All financing facilities are secured over the aircraft (Note 5 and Note 6) and are denominated in US Dollars.

Financing facilities carry an average profit rate ranging from 3.22% to 9.66% per annum.

Changes in liabilities from financing activities:

	1 October 2022 KD	***Cash inflows KD***	***Cash outflows KD***	***Foreign currency adjustment KD***	***30 September 2023 KD***
Due to financial institutions - Gross	**841,507,779**	**24,644,000**	**(307,458,452)**	**(7,579,930)**	**551,113,397**
Total liabilities from financing activities	**841,507,779**	**24,644,000**	**(307,458,452)**	**(7,579,930)**	**551,113,397**

	1 October 2021 KD	*Cash inflows KD*	*Cash outflows KD*	*Foreign currency adjustment KD*	*30 September 2022 KD*
Due to financial institutions - Gross	898,321,018	42,897,292	(126,954,934)	27,244,403	841,507,779
Total liabilities from financing activities	898,321,018	42,897,292	(126,954,934)	27,244,403	841,507,779

12 SECURITY DEPOSITS

Security deposits represent amounts paid by the lessees as a security in accordance with the lease agreements. The deposits are repayable to the lessees on the expiration of the lease agreements subject to satisfactory compliance of the lease agreements by the lessees.

During the current year, the Group has re-classified security deposits amounting to KD 8,738,328 to "liabilities relating to assets held for sale" (Note 6).

13 MAINTENANCE RESERVE AND PROVISIONS

	Balance at 1 October 2022 KD	*Reclassified to liabilities relating to assets held for sale * KD*	*Additions KD*	*Releases/ utilizes KD*	*Foreign currency adjustment KD*	*Balance at 30 September 2023 KD*
Maintenance reserve	**100,827,896**	**(61,733,826)**	**6,483,337**	**(13,897,634)**	**(352,142)**	**31,327,631**
Heavy maintenance provisions	**10,427,987**	**-**	**-**	**(10,334,057)**	**(93,930)**	**-**
Re-lease provisions	**1,355,188**	**-**	**-**	**(314,375)**	**(12,209)**	**1,028,604**
Lessor contributions	**2,510,570**	**-**	**-**	**(2,487,956)**	**(22,614)**	**-**
Total	**115,121,641**	**(61,733,826)**	**6,483,337**	**(27,034,022)**	**(480,895)**	**32,356,235**

* During the current year, the Group has re-classified maintenance reserves amounting to KD 61,733,826 to "liabilities relating to assets held for sale" (Note 6).

	Balance at 1 October 2021 KD	*Reclassified to liabilities relating to assets held for sale KD*	*Additions KD*	*Releases/ utilizes KD*	*Foreign currency adjustment KD*	*Balance at 30 September 2022 KD*
Maintenance reserve	100,564,719	-	16,333,204	(19,119,968)	3,049,941	100,827,896
Heavy maintenance provisions	21,105,300	-	-	(11,317,397)	640,084	10,427,987
Re-lease provisions	3,952,445	-	-	(2,717,127)	119,870	1,355,188
Lessor contributions	-	-	2,460,980	-	49,590	2,510,570
Total	125,622,464	-	18,794,184	(33,154,492)	3,859,485	115,121,641

14 OTHER LIABILITIES

	2023	*2022*
	KD	*KD*
Operating lease income received in advance	**1,335,008**	3,639,811
Accrued expenses	**3,868,985**	4,047,243
Commitment deposits	**468,236**	1,104,140
End of service benefits	**983,348**	919,197
KFAS, NLST, Zakat, and other tax payable	**47,415**	51,340
Other payables	**6,415,836**	10,888,512
	13,118,828	20,650,243

15 OPERATING LEASE INCOME

	2023	*2022*
	KD	*KD*
Lease rental income	**36,156,730**	87,874,662
Release of maintenance reserves *	**-**	8,027,137
Amortisation of lease incentive assets (Note 8)	**(299,992)**	(258,865)
Operating lease income	**35,856,738**	95,642,934

* Release of maintenance reserves amounting to KD Nil (2022: KD 8,027,137) relates to aircrafts which were re-leased to other lessees upon expiry of the current lease agreements, management of the Parent Company assessed that such maintenance reserve is no longer needed.

The future minimum lease rent receivable on the operating lease is KD 643,172,875 (2022: KD 854,309,798) and is receivable as follows:

	2023	*2022*
	KD	*KD*
Income receivable within one year	**88,775,114**	104,320,671
Income receivable within one year to five years	**329,143,747**	395,439,249
Income receivable after five years	**225,254,014**	354,549,878
	643,172,875	854,309,798

The future minimum lease rent receivable on the operating lease after taking into account the events disclosed in Note 6 is KD 293,010,535 (2022: KD 286,826,392) and is receivable as follows:

	2023	*2022*
	KD	*KD*
Income receivable within one year	**40,600,308**	32,145,291
Income receivable within one year to five years	**149,992,076**	135,815,768
Income receivable after five years	**102,418,151**	118,865,333
	293,010,535	286,826,392

16 OTHER INCOME

	2023 ***KD***	*2022* *KD*
Finance income *	**25,713,349**	-
Reversal of heavy maintenance provisions **	**-**	4,450,499
Reversal of re-lease provisions ***	**-**	2,340,420
Reversal of other provisions ****	**2,899,115**	5,911,996
Other miscellaneous income	**105,824**	327,575
	28,718,288	13,030,490

* The finance income represents compensation from the Buyer of the 52 aircrafts, disclosed in Note 6, for the lost income resulting from pending transfer of the aircrafts to the Buyer. It represents an amount equal to the sale price multiplied by an agreed rate and which will be recorded from 1 October 2022 until the date of transfer of the aircrafts to the Buyer.

** Heavy maintenance provision represents the heavy maintenance costs associated with the preparation and transition of an aircraft to a new lessee. During the prior year, the Group has reversed excess heavy maintenance provisions for aircrafts which have been already re-leased and for which the provisions are no longer required.

*** Re-lease provision represents the Group's best estimate of the costs associated with the preparing and transitioning of an aircraft from one lessee to another. During the prior year, the Group has reversed excess re-lease provisions for aircrafts which have been already re-leased and for which the provisions are no longer required.

**** This represents reversal of other provisions which were recorded under other payables which are mainly relating to legal expenses, securing financing facilities, expenses relating to sale of aircrafts, and other expenses which are no longer required based on a detailed assessment performed by the management of the Group during the year.

17 CAPITAL COMMITMENTS

There are potential commitments in respect of purchase of aircraft and engines amounting to KD 701,861,120 as of 30 September 2023 (2022: KD 977,150,714). However, subsequent to the year-end, on 14 November 2023, the Group has signed a termination agreement with the manufacturer relating to the existing order book, and fully refunded the capital advances recorded as of 30 September 2023 (Note 7). Accordingly, subsequent to termination of the order book with the manufacturer, the Group does not have any capital commitments.

18 CONTINGENT LIABILITIES

As at 30 September 2023, the Group has contingent liabilities amounting to KD Nil (2022: KD 5,466,238) in respect of letters of credit arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

19 RELATED PARTY TRANSACTIONS

Related parties represent the major shareholders, directors and key management personnel of the Parent Company, and entities controlled, jointly controlled, or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Significant transactions with related parties included in the consolidated financial statements are as follows:

Consolidated statement of financial position:

	Bank *KD*	***2023*** ***KD***	*Bank* *KD*	*2022* *KD*
Bank balances	**7,356,992**	**7,356,992**	19,513,535	19,513,535
Due to financial institutions	**79,891,118**	**79,891,118**	142,329,085	142,329,085
Other liabilities*	**535,236**	**535,236**	432,659	432,659

19 RELATED PARTY TRANSACTIONS (continued)

Consolidated statement of income:

	Bank *KD*	***2023*** ***KD***	*Bank* *KD*	*2022* *KD*
Murabaha income	**161,177**	**161,177**	42,536	42,536
Finance costs	**8,160,554**	**8,160,554**	6,180,934	6,180,934

* Other liabilities represent the accrued finance costs payable to the Bank.

Key management compensation and directors' fees:	***2023*** ***KD***	*2022* *KD*
Salaries and other short-term benefits	**765,763**	426,950
End of service benefits	**326,761**	135,598
	1,092,524	562,548

The shareholders at the annual general assembly of the Parent Company held on 16 February 2023 have approved directors' remuneration for the independent members of KD 45,000 for the year ended 30 September 2022.

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. Maturity of bank balances and cash and receivables and other assets have been determined on the basis of the remaining period from the reporting date to the contractual maturity date. The maturity profile for aircraft, engine and equipment and capital advances is determined based on management's estimate of liquidation of those assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

The maturity profile of assets and liabilities at 30 September are as follows:

30 September 2023	***Less than 1 year*** ***KD***	***Over 1 year*** ***KD***	***Total*** ***KD***
ASSETS			
Aircraft, engines and equipment	**-**	**348,065,676**	**348,065,676**
Capital advances	**34,996,316**	**-**	**34,996,316**
Receivables and other assets	**33,969,921**	**-**	**33,969,921**
Bank balances and cash	**13,105,157**	**-**	**13,105,157**
	82,071,394	**348,065,676**	**430,137,070**
Assets held for sale	**455,718,036**	**-**	**455,718,036**
Total assets	**537,789,430**	**348,065,676**	**885,855,106**
LIABILITIES			
Due to financial institutions	**157,447,294**	**389,943,004**	**547,390,298**
Security deposits	**-**	**4,169,525**	**4,169,525**
Maintenance reserve and provisions	**-**	**32,356,235**	**32,356,235**
Other liabilities	**11,876,200**	**1,242,628**	**13,118,828**
	169,323,494	**427,711,392**	**597,034,886**
Liabilities directly associated with assets classified as held for sale	**67,969,281**	**-**	**67,969,281**
Total liabilities	**237,292,775**	**427,711,392**	**665,004,167**

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

30 September 2022	*Less than 1 year KD*	*Over 1 year KD*	*Total KD*
ASSETS			
Aircraft, engines and equipment	-	1,067,295,751	1,067,295,751
Capital advances	9,512,010	78,966,431	88,478,441
Receivables and other assets	25,326,718	-	25,326,718
Bank balances and cash	25,113,155	-	25,113,155
Total assets	59,951,883	1,146,262,182	1,206,214,065
LIABILITIES			
Due to financial institutions	178,719,519	655,249,651	833,969,170
Security deposits	922,342	11,528,157	12,450,499
Maintenance reserve and provisions	4,906,123	110,215,518	115,121,641
Other liabilities	19,157,416	1,492,827	20,650,243
Total liabilities	203,705,400	778,486,153	982,191,553

21 SEGMENT INFORMATION

The Group is engaged primarily in only one business segment i.e., aircraft leasing segment. However, for management purposes, the Group is organized into four geographical segments.

30 September 2023	***Middle East KD***	***Asia KD***	***Europe KD***	***America KD***	***Total KD***
Segment revenue	**42,440,885**	**11,245,319**	**6,756,561**	**5,678,007**	**66,120,772**
Segment results (losses)	**12,969,246**	**(6,530,923)**	**(3,207,097)**	**(4,381,420)**	**(1,150,194)**
Total assets	**242,141,768**	**306,815,961**	**163,988,643**	**172,908,734**	**885,855,106**
Total liabilities	**221,765,208**	**230,745,575**	**90,595,729**	**121,897,655**	**665,004,167**
Other segmental information:					
Depreciation	**6,856,278**	**4,854,755**	**1,783,713**	**2,388,898**	**15,883,644**
Finance costs	**17,419,070**	**13,502,881**	**7,373,950**	**7,166,516**	**45,462,417**
Allowance for (reversal of) credit loss on receivables	**206**	**(1,958,170)**	**(21,219)**	**(191,152)**	**(2,170,335)**
Capital expenditure	**6,176**	**-**	**-**	**32,252,835**	**32,259,011**

21 SEGMENT INFORMATION (continued)

30 September 2022	*Middle East* *KD*	*Asia* *KD*	*Europe* *KD*	*America* *KD*	*Total* *KD*
Segment revenue	36,040,935	47,434,962	9,074,239	19,451,769	112,001,905
Segment (losses) results	(23,479,559)	(34,815,690)	(7,316,121)	6,665,765	(58,945,605)
Total assets	263,397,995	447,581,488	277,316,019	217,918,563	1,206,214,065
Total liabilities	329,773,562	360,106,803	161,396,390	130,914,798	982,191,553
Other segmental information:					
Depreciation	11,699,843	21,903,895	8,433,969	8,540,228	50,577,935
Finance costs	12,453,236	12,800,779	6,593,543	5,403,187	37,250,745
(Reversal of) allowance for credit loss on receivables	(60)	(1,212,221)	2,406	(3,404,190)	(4,614,065)
Capital expenditure	3,783	-	-	2,063,246	2,067,029

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash and receivables and other assets. Financial liabilities consist of amounts due to financial institutions, security deposits, and other liabilities.

The fair values of financial instruments are not materially different from their carrying values.

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into profit rate risk and equity price risk, because the Group's significant transactions, assets and liabilities are denominated in the functional currency and no equity instruments. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process.

The Group's principal financial liabilities comprise due to financial institutions, security deposits, and other liabilities. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as bank balances and cash and receivables and other assets. No significant changes were made in the risk management objectives and policies during the years ended 30 September 2023 and 30 September 2022.

The management of the Group is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. The management of the Group reviews and agrees policies for managing each of these risks which are summarised below.

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

23.1 CREDIT RISK

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances and cash and receivables and other assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	2023	*2022*
	KD	*KD*
Bank balances	**13,104,099**	25,112,087
Receivables and other assets *	**33,674,924**	22,480,627
	46,779,023	47,592,714

* Excluded from receivables and other assets are prepayments and advances of KD 294,997 for the year ended 30 September 2023 (2022: KD 599,603) and lease incentive assets of KD Nil (2022: KD 2,246,488).

Receivables and other assets
The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all receivables. However, the Group considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. During the current year, the Group has individually considered the situation of each customer and provided extension in the payment terms for certain customers.

Generally, receivables are written off if past due for more than one year and are not subject to enforcement activity. The Group evaluates the concentration of risk with respect to receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Based on management’s assessment during the year, the Group has recorded reversal of credit loss on receivables amounting to KD 2,170,335 (2022: KD 4,614,065).

During the year, the Group has considered certain receivables to be in default which has indicated that the Group is unlikely to receive the outstanding contractual amounts. As a result, the management has written off those receivables amounting to KD 5,410,187 (2022: KD 5,140,319).

Bank balances
The Group is not significantly exposed to credit risk on its Bank balances. While Bank balances are subject to the impairment requirements of IFRS 9, management determined that the identified impairment loss was immaterial as these balances are mostly held with counterparties with appropriate credit-ratings assigned by international credit-rating agencies.

23.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages this risk by active cash flow management, short term financing facilities with various financial institutions, investment in short term murabahas and generation of funds from its operations. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

The table below summarises the liquidity profile of the Group’s liabilities and reflects the projected cash flows which includes future finance cost payments over the life of these financial liabilities.

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

23.2 LIQUIDITY RISK (continued)

30 September 2023	***Within 3 months KD***	***3 to 12 Months KD***	***1 to 5 years KD***	***More than 5 years KD***	***Total KD***
Due to financial institutions	**45,192,535**	**137,682,214**	**308,758,407**	**137,296,356**	**628,929,512**
Security deposits	**-**	**435,449**	**1,652,674**	**2,081,402**	**4,169,525**
Other liabilities (excluded operating lease income received in advance)	**281,419**	**10,259,773**	**251,431**	**991,197**	**11,783,820**
TOTAL LIABILITIES	**45,473,954**	**148,377,436**	**310,662,512**	**140,368,955**	**644,882,857**
Capital commitments	**-**	**-**	**-**		**-**

30 September 2022	*Within 3 months KD*	*3 to 12 Months KD*	*1 to 5 years KD*	*More than 5 years KD*	*Total KD*
Due to financial institutions	30,886,183	179,696,169	573,741,074	169,651,439	953,974,865
Security deposits	-	922,342	3,956,050	7,572,107	12,450,499
Other liabilities (excluded operating lease income received in advance)	53,547	15,463,143	267,898	1,225,844	17,010,432
TOTAL LIABILITIES	30,939,730	196,081,654	577,965,022	178,449,390	983,435,796
Capital commitments	528,445	42,665,844	578,678,189	355,278,236	977,150,714

23.3 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as profit rates and foreign exchange rates, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

23.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the carrying value of due to financial institutions. Profit rate risk is managed by the finance department of the Parent Company.

The Group is exposed to profit risk on its floating profit bearing assets and liabilities.

The table below details the Group's exposure to profit rate risk.

The sensitivity of Group's profit or loss for one year is the effect of the assumed changes in profit rates financial assets and liabilities held as at the reporting date.

	Change in basis points	*Effect on (loss) profit for the year KD*
30 September 2023	**±25**	**±329,692**
30 September 2022	±25	±229,585

Sensitivity to profit rate movements will be on a symmetric basis.

23 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

23.3.2 Asset risk

The Group bears the risk of re-leasing or selling the aircraft in its fleet at the end of their lease terms. If demand for aircraft decreases market lease rates may fall, and should such conditions continue for an extended period, it could affect the market value of aircraft in the fleet and may result in an impairment charge. The Group's management has appropriate experience of the aviation industry to manage the fleet and remarket or sell aircraft as required in order to reduce this risk.

The Group is highly dependent upon the continuing financial strength of the commercial airline industry. A significant deterioration in this sector could adversely affect the Group through a reduced demand for aircraft in the fleet and / or reduced market rates, higher incidences of lessee default and an increase in aircraft on the ground. The Group periodically performs reviews of its carrying values of aircraft and associated assets, receivables and the sufficiency of accruals and provisions, substantially all of which are susceptible to the above risks and uncertainties.

24 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders' value.

The Group monitors capital using a gearing ratio, which is net debt divided by capital. The Group includes within net debt, due to financial institutions, less bank balances and cash. Capital includes total equity add/less foreign currency translation reserve.

	2023	*2022*
	KD	*KD*
Due to financial institutions	**547,390,298**	833,969,170
Less: Bank balances and cash	**(13,105,157)**	(25,113,155)
Net debt	**534,285,141**	808,856,015
Total equity	**220,850,939**	224,022,512
Adjust: Foreign currency translation reserve	**(17,807,900)**	(19,829,279)
Capital	**203,043,039**	204,193,233
Gearing ratio	**2.63**	3.96

25 SUBSEQUENT EVENTS

Subsequent to the year-end, on 14 November 2023, the Group has signed a termination agreement with the manufacturer relating to the existing order book, and fully refunded the capital advances recorded as of 30 September 2023 (Note 7 and 17). Accordingly, subsequent to termination of the order book with the manufacturer, the Group does not have any capital commitments.