

ANNUAL REPORT 2016



ANNUAL
REPORT
2016



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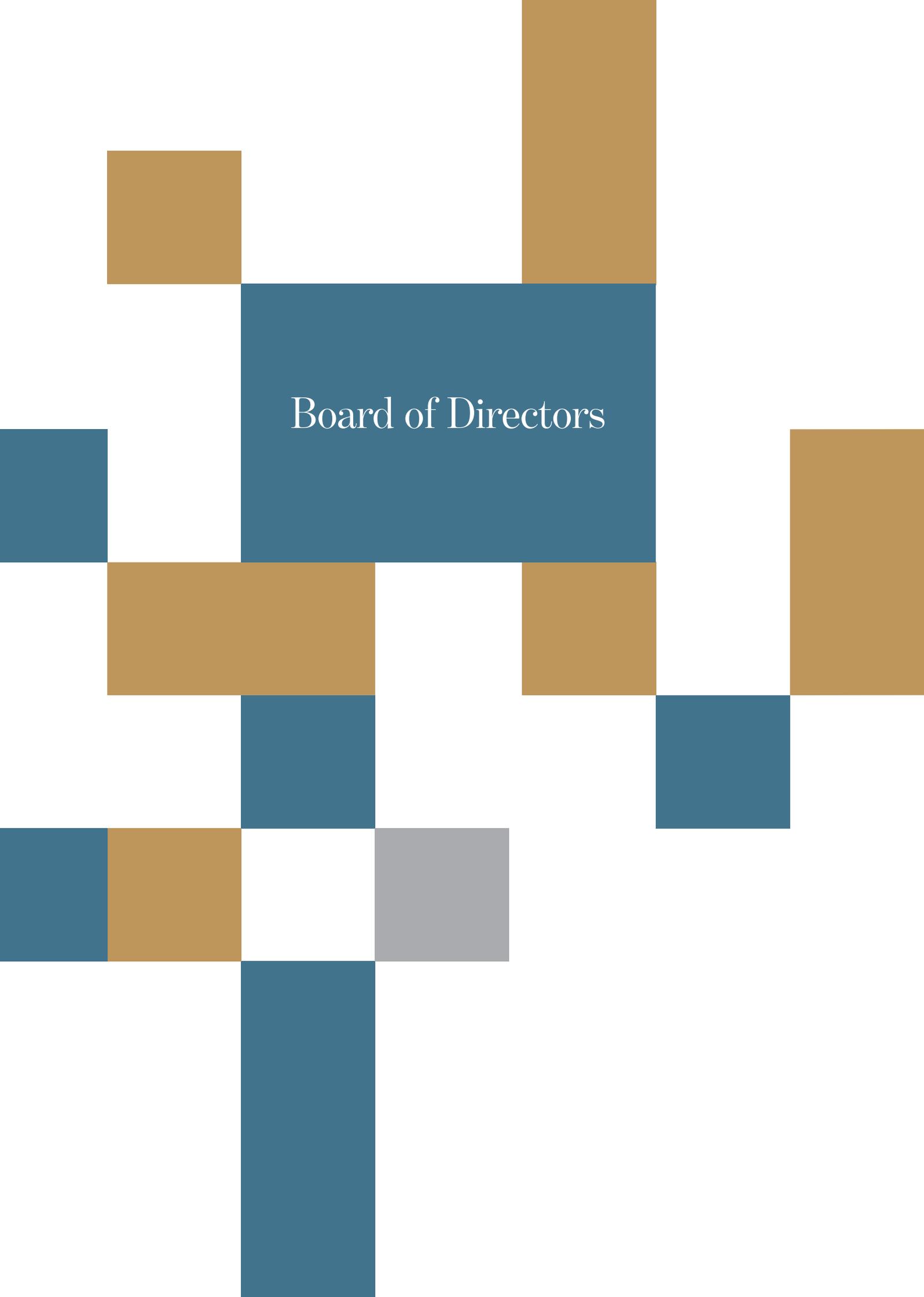
His Highness
Shaikh Salman bin Hamad Al-Khalifa
Crown Prince - Commander in Chief of Bahrain
Defence Force



His Majesty
HM King Hamad Bin Isa Al Khalifa
King of Bahrain



His Highness
Shaikh Khalifa bin Salman Al Khalifa
Prime Minister of Bahrain



Board of Directors



Mohammed Ibrahim Al Farhan
Chairman



Abdulghaffar Abdulrahim Al
Kooheji
Vice Chairman



Hamad Abdulaziz Al Shaya
Board Member



Mohammed Ahmad Al-Qassimi
Board Member



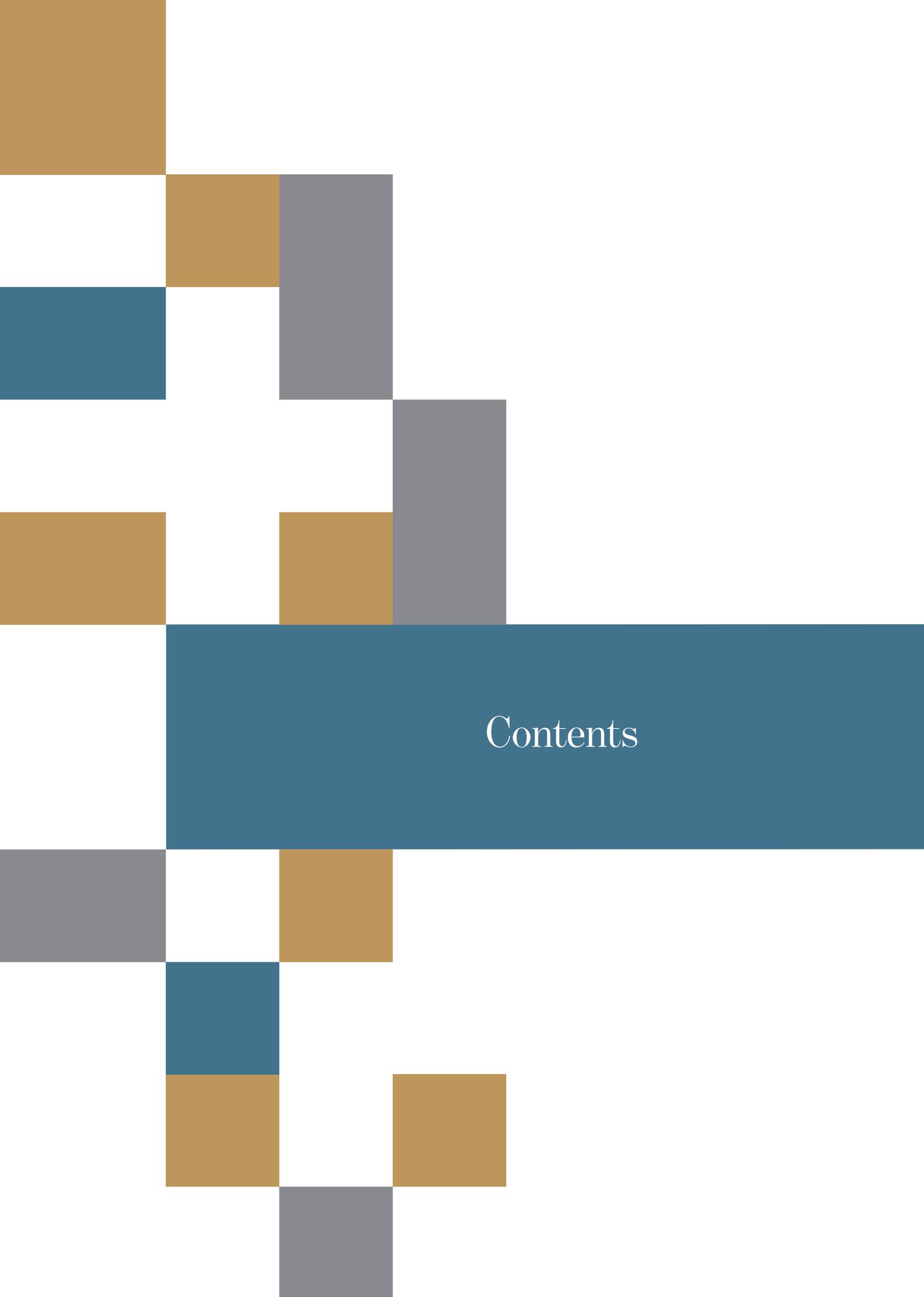
Mohammed Abdu-Hameed
Al-Marzook
Board Member



Gerard Snabian
Board Member



Ahmad Saoud Al Sumait
Board Member



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Chairman's Message

Chairman's Message

First Real Estate Development Company

The members of the Board of Directors and I are pleased to welcome you to the General Assembly meeting of First Real Estate Company to present to you this new Annual Report and financial statements for the fiscal year ending December 31, 2016.

First Real Estate worked this year at maintaining the high quality of its assets in terms of high occupancy rates and increased returns. The company continues its contemplated policy represented by developing its non-income generating assets into income-generating assets with rewarding returns, and distinguished assets.

The company activities during 2016 included the development of an additional warehouse at Bahrain Investment Wharf. The project now consists of 5 warehouses spanning a total rental area of 61,000 sqm. The warehouse was developed and leased in a record time and at competitive prices which will be reflected positively on the company's financial performance in the future. The company also developed through its share in Al Sanbouk Real Estate Company, a laborers' accommodation complex at Jabal Ali (UAE) and managed to fully lease the project. This will also reflect positively on the company financial position in 2017.

In 2016, First Real Estate Company began to develop its largest project, The Catamaran, in collaboration with Al Dow Real Estate Company, one of our strategic partners. The project comprises of two towers, one designated for sale as units and the other for long term lease. The project is located in close proximity to City Center mall, and is considered to be one of the most strategic locations of Bahrain.

The project is being constructed on a plot of 6,530 sqm and contains a total of 571 apartments and a shopping mall in addition to gymnasium, swimming pools and other recreational facilities. The project is expected to be completed in the 4th Q of 2018. Having said that, the company continues to seek suitable investment opportunities in Bahrain and the Arabian Gulf states, which will increase its assets value and augment income resources.

Allow me now to shed some light on an important aspect of this annual report, namely, the financial results and its financial position. The company assets scored BD 81.2 million in the end of 2016 (BD 78 million in the end of 2015) reflecting a rise by BD 3.2 million, 4.1% growth rate. Shareholders equities scored BD 50.4 million (BD 50 million in 2015), a 1% growth rate.

I want to assure you dear shareholders that the Company's financial performance during 2016 was satisfactory. Total revenues scored BD 5 million in the end of 2016 vis-à-vis BD 4.7 million for 2015, an increase by BD 300,000. On the other hand, the company's expenses increased slightly to BD 2.5 million up from BD 2.4 million in 2015, an increase by BD 100,000. The company maintained net profits estimated at BD 2.1 million the same as in last year.

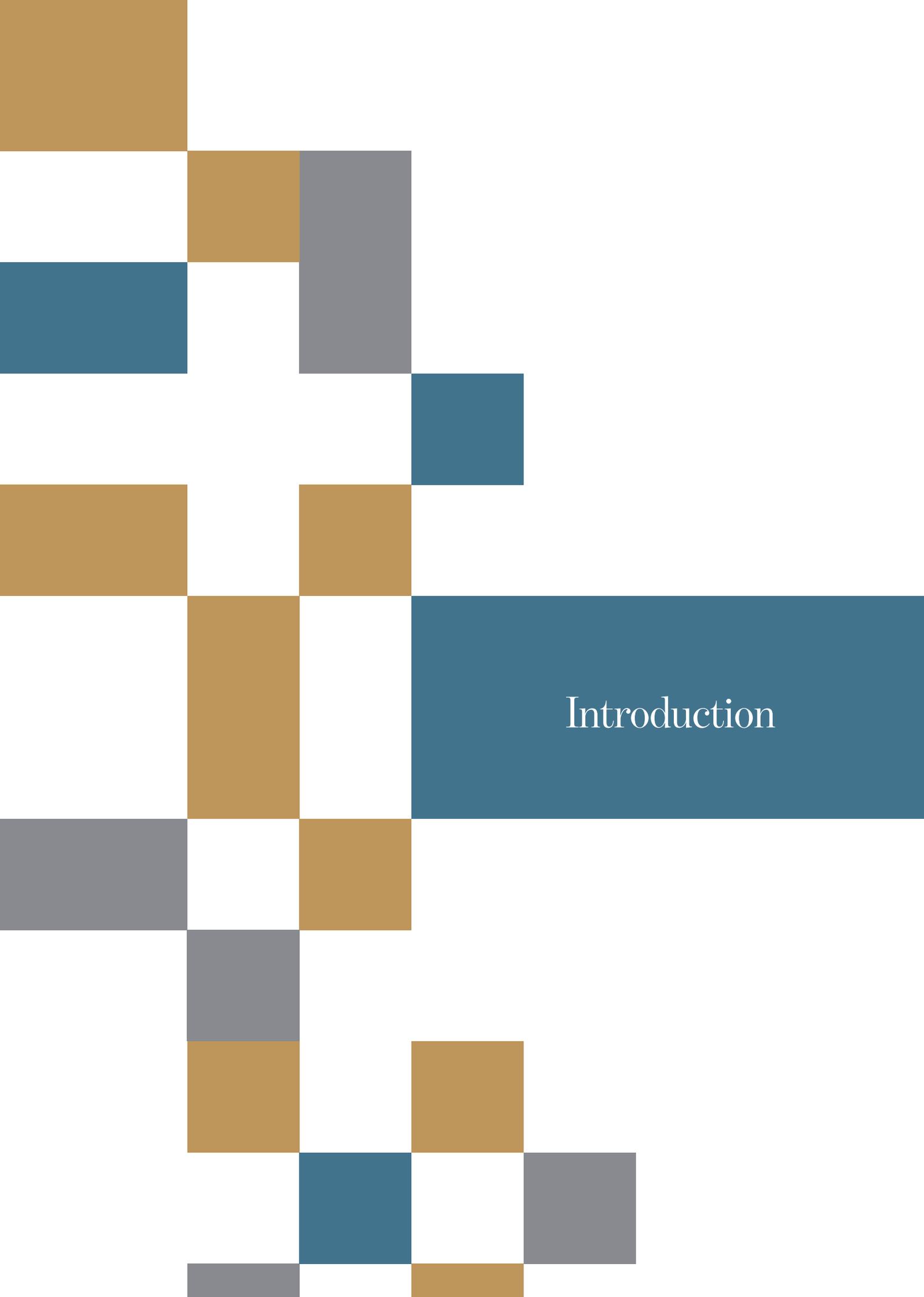
Ladies and gentlemen, Shareholders of First Real Estate Company,

Finally, I cannot but offer, on behalf of myself and the Board of Directors, my sincerest thanks and gratitude to the company shareholders for their sustained support and valuable confidence. Further, I express my appreciation to the dedicated Company employees and those who execute its projects in a timely manner for their industrious work in order to achieve the company goals and secure its leading position.

Thank you,

Mohammed Ibrahim Al Farhan

Chairman of the Board



Introduction



Introduction

First Real Estate Company was founded and restructured to achieve sustainable growth strategies and maintaining a prominent reputation within the local real estate market while offering rewarding opportunities for its investors, management and staff. The Company's professional and experienced management team has worked ardently throughout the previous years at procuring a broader field of investments by expanding its focus beyond the residential market to the commercial and warehouse markets.

First Real Estate Company continues to strive to enhance its asset value and meet shareholder expectations through the implementation of planned growth and qualitative diversification initiatives on both the local and regional levels.

Strategy

First Real Estate Company's strategy is based on the following business model:

- Uncover hidden opportunities in the real estate sector
- Acquire new properties with appreciation potential
- Land trading and development
- Increase and enhance profitability of the existing properties
- Have well defined exit strategies for each property

Vision

Through the life cycle of assembling, grooming and monitoring a solid portfolio of real estate assets, the Company seeks to create value at low levels of risk for its shareholders, create opportunities for its customers and experience for its managers and staff.

Mission Statement

To optimize returns by providing high-quality, stable and secure real estate investment opportunities at low levels of risk and to maximize the value of real estate investments and projects that will be undertaken for the benefit of the shareholders, customers and employees by combining the appropriate mix of people along with creative planning and strategy implementation.



Company Projects

Company Projects

The Company aims to achieve added value against minimum risk profile so as to provide maximum protection for the investors' and shareholders' interests and to maintain their value despite the fluctuations in the local market.

First Real Estate Co. B.S.C. (Closed) owns real estate that can be classified into two main categories: (i) income-generating real estate, and (ii) trading and development real estate. The following is a brief description of each category.

1. Income Generating Properties

Kingdom of Bahrain

JUFFAIR COMPOUND 1

The compound is located in Al Juffair area, one of Manama's prime locations. This luxurious fully furnished compound comprises of 32 villas over 300 square meters, each with a private swimming pool. The compound is fully leased.



JUFFAIR COMPOUND 2

The compound is adjacent to Juffair Compound (1). The compound comprises of 22 fully furnished villas with a total area of approximately 300 square meters. Each villa features an independent external maid's quarter and a private swimming pool. The compound is fully leased.

THE 100 RESIDENCE TOWER, AL FATEH AREA

The 100 Residence Tower was completed in the first quarter of 2010. It is located in Al Fateh area in Juffair, covering a land area of 2,160 square meters and a total up area of 22,670 square meters. The project consists of 27 floors containing 104 luxurious fully furnished apartments. The facilities and services provided include indoor and outdoor swimming pools, gymnasium, housekeeping, and 24 hours security. The project is leased.





(G28) WAREHOUSE AT THE BAHRAIN INVESTMENT WHARF, AL HIDD AREA

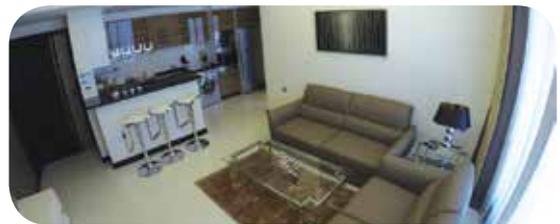
The Company acquired a strategically situated land for investment purposes known as G28, covering a total area of approximately 45,247 square meters at the Bahrain Investment Wharf. The Company signed a 15 year build-to-suit warehouse contract agreement with an investor for developing the land into a warehouse with a total built-up area of 31,000 square meters. The warehouse was completed and handed over to the investor in August 2009.

(G26) BAHRAIN INVESTMENT WHARF WAREHOUSES, AL HIDD AREA

The company owns this strategically located land with an area of 58,222 square meters within Bahrain Investment Wharf project. In alignment with the company's strategy to maximise income generating assets, four warehouses were developed on this land boasting a total built up area of 29,952 square meters. Each warehouse, consists of units with different sizes, to accommodate the markets needs. The company completed the development of the final warehouse in 2016, and the project is leased.

AL YAL RESIDENCE TOWER - AL SEEF DISTRICT

In equal partnership with a specialized real estate company, the Company had developed one plot of Al Seef Land, covering an area of 1,553 square meters, into a luxurious residential tower of 25 floors and a total built up area of 19,178 sq. meters. The project comprises 130 fully furnished residential units plus a restaurant, gym, children play area and a swimming pool. The tower overlooks the sea and is situated, in one of the most strategic locations in Al Seef area, just a few meters from City Center and Al Seef Mall. The project was completed in August 2014, and is fully leased.



United Arab Emirates

LABOUR ACCOMMODATION AT MUHAISNAH AREA – DUBAI

In alliance with Injazzat Real Estate Development Company, the Company acquired a labour accommodation building in Muhaisnah area with a total area of 5,287 square meters. The building comprises of two floors containing a total of 399 rooms which were refurbished in 2010. The project is fully leased.

JABAL ALI LABOR ACCOMMODATION – DUBAI

As part of the Company's strategy to expand its projects at the regional level, the Company acquired in August 2008, through its 25% share in Al Sanbouk Real Estate L.L.C., two plots of land with a total area of 41,980 square feet in Jebal Ali, Dubai. Development has been completed on a labour accommodation project that includes 380 units, it was completed in the second half of 2016, and is fully leased.

2. Land Trading and Development

Kingdom of Bahrain

CATAMARAN TOWERS PROJECT

First Real Estate along with an associate company, started the development on the company's largest project. The project comprises of two residential towers along with a commercial space that lies between the towers. The project is to be built on a plot that measures 6,530 square meters, and the company intends to sell units in one tower, while furnishing the other and leasing it out on long term leases.



AL SEEF LAND - AL SEEF DISTRICT

The Company, in equal partnership with Dhow Real Estate Company, acquired ownership in a strategically located land in Al Seef District north of Bahrain City Centre. In 2008, the land was subdivided into 21 plots covering an area of 510,881 square feet. The Company decided to take advantage of the land price appreciation in Al Seef area by selling thirteen of its plots, covering a total area of 336,203 square feet, generating a substantial income to the Company. Meanwhile, the Company decided to keep the remaining eight plots for development or trading purposes.



HIDD INDUSTRIAL LAND - HIDD AREA

The Company acquired a plot of land in Al Hidd Industrial area covering a total area of 73,000 square feet. The Company intends to this land.

MARSA AL SEEF - AL SEEF AREA

The Company acquired equity shares in Marsa Al Seef Investment Company Limited which was established in 2008 with a paid up capital of US\$ 531,000,000. The company is owned by Global Banking Corporation B.S.C., Bahrain. The reclamation work of phase one of the project is complete. Marsa Al seef Investment Company are exploring suitable exit scenarios.

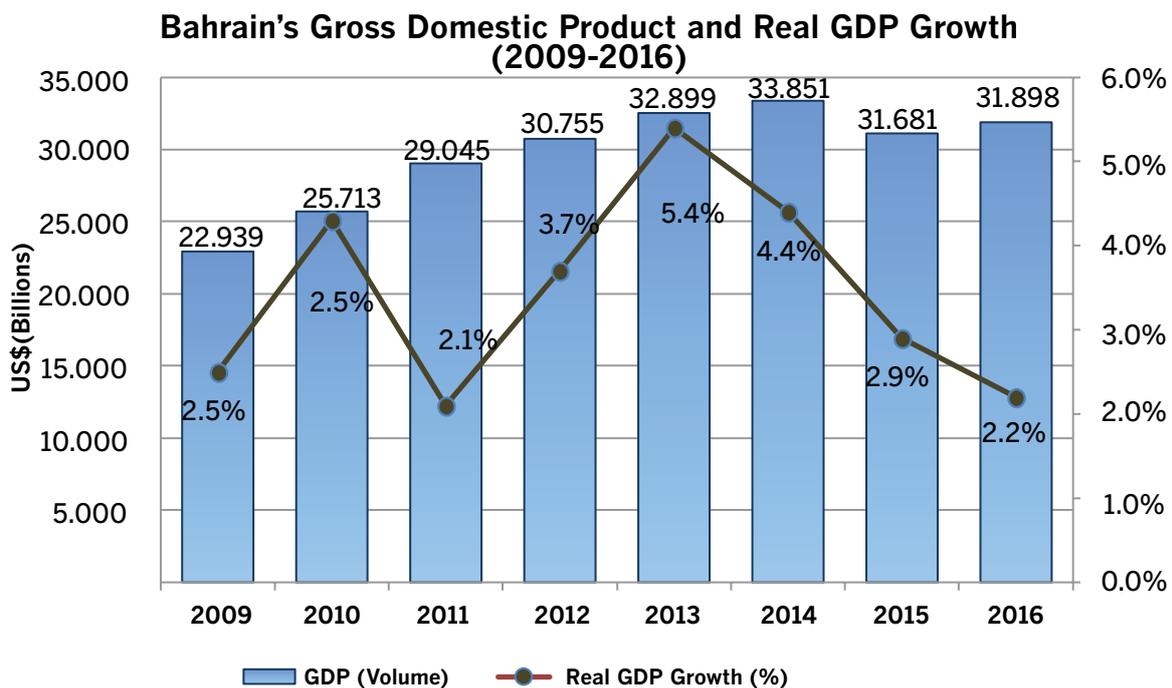


Real Estate & Economic Market Overview

Bahraini Economy

The Economist Intelligence Unit (EIU) expects the real growth to remain positive for the Bahraini economy though at a diminishing rate. After a 5.4% growth in 2013, 4.4% growth in 2014 and 2.9% growth in 2015, it is expected to have a growth of 2.2% in 2016 and about 1.8% in 2017. The decrease in growth is consistent with the general weakness of the GCC economies due to the weakness affecting the oil market. Although Bahrain produces only 200,000 barrels per day, the weakness of the oil market remains an influential strong factor compared to the size of the economy and is also influential at the amount of foreign currency or most revenues of financing its budget. In addition, the weakness of the surrounding economies has an indirect impact on the weak performance of its economy.

Graph (1)



Source: Central Bank of Bahrain, EIU

The EIU predicts that the deficit of the central government will remain high and will increase slightly from 12.9% of GDP in 2015 to about 13.6% in 2016. However, It expects that it will decline to 9.8% in 2017. It also projects that the public debt would rise from 58.7% of GDP in 2015 to about 70.8% of 2016 then to 77.5% in 2017.

The EIU predicts that the current account deficit, net transactions with the foreign world, will rise from \$888 million in 2015 to \$ 1.795 billion in 2016, and then fall to \$ 1.307 billion in 2017 and will remain within 3.9% of GDP. Foreign currency reserve would drop from \$ 3,770 million in 2016 to \$ 2,488 million in 2016 and would settle at \$ 2,339 million in 2017.

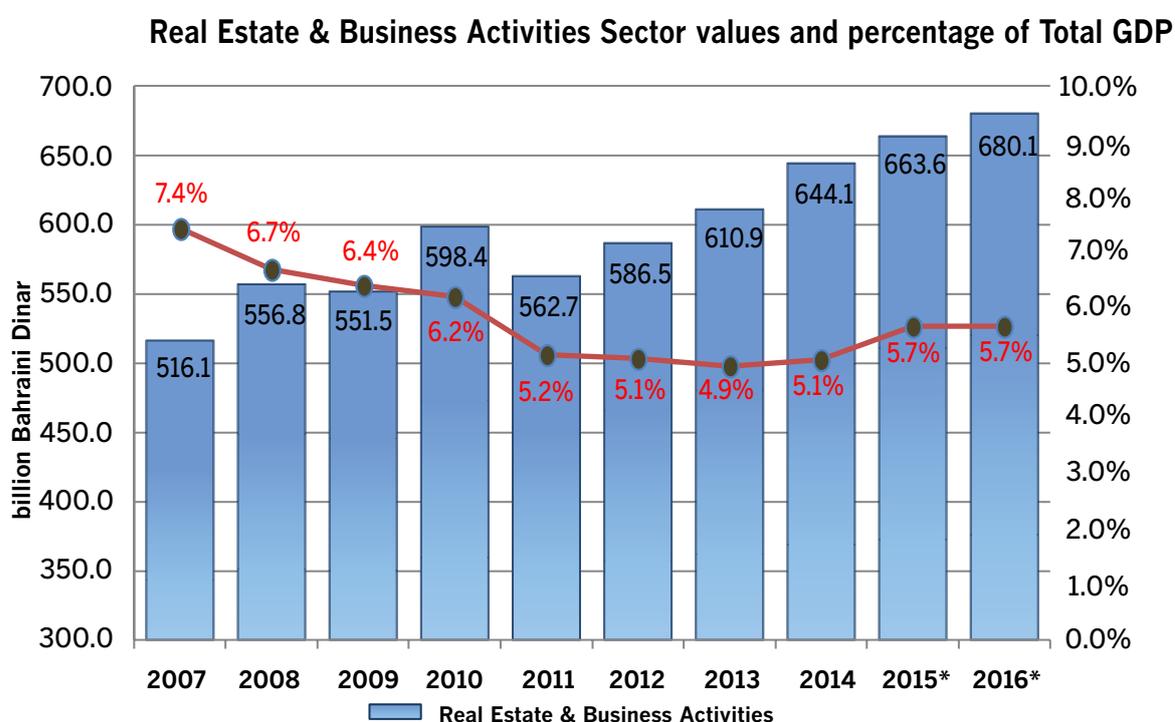
It is important to be aware on relying the above projections because macro-economy variables are extremely sensitive to the changes in the oil market and the geopolitical violence events in the region. Therefore, projections could be noticeably better if OPEC and independent producers agreement to withdraw the supplied surplus of the traditional oil holds and if it is followed by catharsis in geopolitical violence events and vice versa.

Indexes of Real Estate Market Performance-Kingdom of Bahrain

In accordance with the latest available data from the Central bank of Bahrain and the Economic Intelligence Unit (EIU), Real estate activities and business services sector began to grow at higher rates than the macro economy growth rate. Its contribution increased gradually in the GDP components. In 2014, its contribution rose to 5.1% up from 4.9% in 2013. Likewise, its contribution in 2015 and 2016 rose to 5.5%. Its absolute value increased by 2.5% and BD 680.1 million in 2016 (DB 663.6 million in 2015).

Available data indicate growth in banking credit by 5% in 9 months between the end of 2015 and the end of September 2016. Building and construction activity share from total banking credit scored 16.7%. The compound average for banking credit growth for the period from 2007 to 9/2016 scored 7.5% and 6.3% for the building and construction activity.

Graph (2)



Source: Central Bank of Bahrain, EIU.

* 2015 & 2016 data based on Economist Intelligence Unit "EIU" estimation.

According to the data released from the Survey and Real Estate Registration Office at the Kingdom of Bahrain, real estate liquidity measured by its trading value in the amount of BD 786.8 million for the first 9 months of 2016 and they might go up to BD 1,049 million if calculated on annual basis. If this amount is achieved for 2016, this means they dropped by -14.8% vis-à-vis 2015. Part of the reduction of liquidity level is the result of a drop in real estate prices and it is also due to lower economic activity and regional geopolitical conditions. Real estate liquidity in the Kingdom achieved a compound growth rate in the five past years 2012 to 2016-at 12.1%.

Graph (3)

Loans and credit facilities distributed according to economic sectors with the exception of banks (BD billion)



Source: Central Bank of Bahrain, EIU.

* 2015 data (modified) based on actual figures up to the end of June 2015.

* 2016 data (modified) based on actual figures up to the end of October 2016.

Table No. (1): Real Estate trading value

| Total value of real estate transactions | 2011 | % Of the total | 2012 | % Of the total | 2013 | % Of the total | 2014 | % Of the total | 2015 | % Of the total | 2016 | % Of the total |
|---|--------------------|----------------|--------------------|----------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|
| Bahrainis | 362,966,608 | 79.7% | 559,729,659 | 84.3% | 757,744,690 | 87.9% | 1,118,830,430 | 86.6% | 1,105,816,912 | 89.8% | 965,974,815 | 92.1% |
| GCC Citizens | 60,709,055 | 13.3% | 48,642,104 | 7.3% | 53,441,135 | 6.2% | 108,107,612 | 8.4% | 77,046,748 | 6.3% | 40,970,607 | 3.9% |
| Foreigners | 31,699,795 | 7.0% | 55,619,878 | 8.4% | 50,777,329 | 5.9% | 65,523,860 | 5.1% | 48,731,679 | 4.0% | 42,158,613 | 4.0% |
| The total trading | 455,375,458 | 100.0% | 663,991,641 | 100.0% | 861,963,154 | 100.0% | 1,292,461,902 | 100.0% | 1,231,595,339 | 100.0% | 1,049,104,035 | 100% |

Source: Survey and Land Registration Bureau data - the Kingdom of Bahrain.

*Up to the third quarter of 2015, calculated on an annual basis data.

** Up to the third quarter of 2016, calculated on an annual basis data.



First Real Estate Company B.S.C. (c)
Consolidated Financial Statements
for the year ended 31st December 2016



First Real Estate Company B.S.C. (C)
Report of the Board of Directors

Bahraini Dinars

The Board of Directors has the pleasure in submitting its report and the audited consolidated financial statements for the year ended 31 December 2016.

Principal activities and review of business developments

The Group is engaged in buying, selling, managing, developing and leasing of flats, offices and houses.

The Group made a net profit of BD 2,512,391 during the year ended 31 December 2016 (2015: BD 2,430,749) of which a profit of BD 2,096,184 is attributable to the equity holders of the parent (2015: BD 2,085,839) and a profit of BD 416,207 is attributable to the non-controlling interests (2015: BD 344,910).

| Financial highlights | 2016 | 2015 |
|-----------------------------|-------------------|-------------|
| Total income | 4,876,776 | 4,683,480 |
| Profit for the year | 2,512,391 | 2,430,749 |
| Total assets | 81,212,592 | 77,952,263 |
| Total equity | 57,749,902 | 59,378,849 |

Representations and audit

The Group's activities for the year ended 31 December 2016 have been conducted in accordance with the Bahrain Commercial Companies Law 2001 and other relevant statutes of the Kingdom of Bahrain.

There have been no events subsequent to 31 December 2016, which would in any way invalidate the consolidated financial statements.

The Group has maintained proper, complete accounting records and these, together with all other information and explanations, have been made freely available to the auditors, KPMG Fakhro, who have expressed their willingness to continue as auditors for the next accounting year.

Signed on behalf of the Board

Mohammed Ibrahim Al Farhan

Chairman

20 January 2017



Independent Auditors' Report To The Shareholders First Real Estate Company B.S.C (C)

KINGDOM OF BAHRAIN

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of First Real Estate Company BSC (c) (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (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.

Other information

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

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

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit



Independent Auditors' Report To The Shareholders (Continued)

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 skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law, we report that:

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

KPMG Fakhro

Partner Registration No. 83
20 January 2017

Consolidated Statement Of Financial Position

As at 31 December 2016

Bahraini Dinars

| | Note | 2016 | 2015 |
|---|------|-------------------|-------------------|
| ASSETS | | | |
| Furniture, equipment and vehicles | | 6,286 | 3,505 |
| Investment properties | 5 | 63,301,931 | 67,381,625 |
| Investments in associates | 6 | 1,483,843 | 1,468,924 |
| Available for sale investments | 7 | 3,376,738 | 3,376,738 |
| Non-current assets | | 68,168,798 | 72,230,792 |
| Properties under development | 8 | 6,553,899 | - |
| Receivables and other assets | 9 | 2,054,126 | 703,537 |
| Cash and bank balances | 10 | 4,435,769 | 5,017,934 |
| Current assets | | 13,043,794 | 5,721,471 |
| Total assets | | 81,212,592 | 77,952,263 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 11 | 33,390,000 | 33,390,000 |
| Share premium | 12 | 27,241 | 27,241 |
| Reserves | | 17,031,087 | 16,603,274 |
| Equity attributable to owners of the Company | | 50,448,328 | 50,020,515 |
| Non-controlling interests | 23 | 7,301,574 | 9,358,334 |
| Total equity | | 57,749,902 | 59,378,849 |
| Liabilities | | | |
| Wakala finance | 16 | 15,830,597 | 16,578,483 |
| Non-current liabilities | | 15,830,597 | 16,578,483 |
| Wakala finance | 16 | 747,886 | 524,071 |
| Payable to related parties | 17 | 3,460,336 | - |
| Payables and other liabilities | 18 | 1,534,516 | 1,214,434 |
| Advances from customers | | 1,607,367 | - |
| Advances from tenants | | 281,988 | 256,426 |
| Current liabilities | | 7,632,093 | 1,994,931 |
| Total liabilities | | 23,462,690 | 18,573,414 |
| TOTAL EQUITY AND LIABILITIES | | 81,212,592 | 77,952,263 |

The Board of Directors approved the consolidated financial statements on 20 January 2017 and is signed on its behalf by:



Mohammad Al Farhan
Chairman



Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman

The notes on pages 25 to 46 are an integral part of these consolidated financial statements.

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income

For the year ended 31 December 2016

Bahraini Dinars

| | Note | 2016 | 2015 |
|---|------|------------------|------------------|
| INCOME | | | |
| Rental revenue | | 4,864,598 | 4,679,828 |
| Other income | | 12,178 | 3,652 |
| Total income | | 4,876,776 | 4,683,480 |
| EXPENSES | | | |
| Property expenses | | (1,104,366) | (1,084,286) |
| Finance costs | 16 | (860,872) | (868,823) |
| Impairment loss on available for sale investment | 8 | - | (2,816) |
| Other expenses | | (279,247) | (124,283) |
| Staff costs | | (198,488) | (129,743) |
| Consultancy and professional fees | | (24,764) | (16,618) |
| Depreciation | | (1,718) | (2,096) |
| Share of gain / (loss) on associates | 7 | 13,790 | (24,066) |
| Profit from operations | | 2,421,111 | 2,430,749 |
| Changes in fair value of investment properties | 5 | 91,280 | - |
| PROFIT FOR THE YEAR | | 2,512,391 | 2,430,749 |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | |
| Foreign currency translation differences | | 1,129 | (3,838) |
| TOTAL COMPREHENSIVE INCOME | | 2,513,520 | 2,426,911 |
| Profit attributable to: | | | |
| Owners of the Company | | 2,096,184 | 2,085,839 |
| Non-controlling interests | | 416,207 | 344,910 |
| | | 2,512,391 | 2,430,749 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 2,097,313 | 2,082,001 |
| Non-controlling interests | | 416,207 | 344,910 |
| | | 2,513,520 | 2,426,911 |

The Board of Directors approved the consolidated financial statements on 20 January 2017 and is signed on its behalf by:



Mohammad Al Farhan
Chairman



Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman

The notes on pages 25 to 46 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

For The Year Ended 31 December 2016

Bahraini Dinars

| | Attributable to equity holders of the parent | | | | | | | | | | | |
|---|--|---------------|------------------|-------------------|-----------------|--------------------------------------|---------------------------------|-------------------------------------|-------------------|------------------|--------------------------|--------------|
| | Share capital | | Share premium | Statutory reserve | General reserve | Foreign Currency Translation reserve | Retained earnings-Distributable | Retained earnings-not distributable | Total Reserves | Total | Non-controlling interest | Total equity |
| 2016 | | | | | | | | | | | | |
| Balance at 1 January 2016 | 33,390,000 | 27,241 | 5,176,865 | 2,155,826 | (6,482) | 9,147,293 | 129,772 | 16,603,274 | 50,020,515 | 9,358,334 | 59,378,849 | |
| Profit for the year | - | - | - | - | - | 2,096,184 | - | 2,096,184 | 2,096,184 | 416,207 | 2,512,391 | |
| Other comprehensive income | - | - | - | - | 1,129 | - | - | 1,129 | 1,129 | - | 1,129 | |
| Total comprehensive income | - | - | - | - | 1,129 | 2,096,184 | - | 2,097,313 | 2,097,313 | 416,207 | 2,513,520 | |
| Contribution by non-controlling interest | - | - | - | - | - | - | - | - | - | 987,369 | 987,369 | |
| Reclassified to payable to shareholders of subsidiaries (note 17) | - | - | - | - | - | - | - | - | - | (3,460,336) | (3,460,336) | |
| Transfer to statutory reserve | - | - | 209,618 | - | - | (209,618) | - | - | - | - | - | |
| Dividends for 2015 | - | - | - | - | - | (1,669,500) | - | (1,669,500) | (1,669,500) | - | (1,669,500) | |
| Balance at 31 December 2016 | 33,390,000 | 27,241 | 5,386,483 | 2,155,826 | (5,353) | 9,364,359 | 129,772 | 17,031,087 | 50,448,328 | 7,301,574 | 57,749,902 | |
| | Attributable to equity holders of the parent | | | | | | | | | | | |
| | Reserves | | | | | | | | | | | |
| 2015 | | | | | | | | | | | | |
| Balance at 1 January 2015 | 33,390,000 | 27,241 | 4,968,281 | 2,155,826 | (2,644) | 7,339,109 | 60,701 | 14,521,273 | 47,938,514 | 8,769,256 | 56,707,770 | |
| Profit for the year | - | - | - | - | - | 2,085,839 | - | 2,085,839 | 2,085,839 | 344,910 | 2,430,749 | |
| Other comprehensive income | - | - | - | - | (3,838) | - | - | (3,838) | (3,838) | - | (3,838) | |
| Total comprehensive income | - | - | - | - | (3,838) | 2,085,839 | - | 2,082,001 | 2,082,001 | 344,910 | 2,426,911 | |
| Contribution by non-controlling interest | - | - | - | - | - | - | - | - | - | 244,168 | 244,168 | |
| Transfer to statutory reserve | - | - | 208,584 | - | - | (208,584) | - | - | - | - | - | |
| Transfer by subsidiary | - | - | - | - | - | (69,071) | 69,071 | - | - | - | - | |
| Balance at 31 December 2015 | 33,390,000 | 27,241 | 5,176,865 | 2,155,826 | (6,482) | 9,147,293 | 129,772 | 16,603,274 | 50,020,515 | 9,358,334 | 59,378,849 | |

The notes on pages 25 to 46 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

Bahraini Dinars

| | 2016 | 2015 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the year | 2,512,391 | 2,430,749 |
| Adjustments for: | | |
| Depreciation | 1,718 | 2,096 |
| Changes in fair value of investment properties | (91,280) | - |
| Share of (gain) / loss on associates | (13,788) | 24,066 |
| Impairment loss on available for sale investment | - | 2,816 |
| Finance costs | 860,872 | 868,823 |
| Murabaha and wakala income | (8,374) | (600) |
| Operating profit before working capital changes | 3,261,539 | 3,327,950 |
| Working capital changes: | | |
| Receivables and other assets | (1,350,589) | 139,074 |
| Trade and other payables | 1,634,195 | 40,451 |
| Advances from tenants | 25,562 | (73,611) |
| Net cash generated from operating activities | 3,570,707 | 3,433,864 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of furniture, equipment and vehicles | (2,781) | - |
| Murabaha and wakala income received | 8,374 | 600 |
| Payments to contractors | 482,607 | (1,315,247) |
| Additions to investment in associates | - | (463,500) |
| Additions to investment properties | (367,083) | (79,075) |
| Additions to properties under development | (2,015,842) | - |
| Term deposit with maturity of more than three months | - | (750,000) |
| Redemption of available for sale investments | - | 22,607 |
| Net cash used in investing activities | (1,894,725) | (2,584,615) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Wakala finance (net) | (524,071) | - |
| Finance costs paid | (1,051,945) | (562,319) |
| Dividends paid | (1,669,500) | - |
| Additional contribution by non-controlling interest | 987,369 | 244,168 |
| Net cash used in from financing activities | (2,258,147) | (318,151) |
| (Decrease) / increase in cash and cash equivalents during the year | (582,165) | 531,098 |
| Cash and cash equivalents at 1 January | 4,267,934 | 3,736,836 |
| Cash and cash equivalents at 31 December | 3,685,769 | 4,267,934 |

The notes on pages 25 to 46 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

1. REPORTING ENTITY

First Real Estate Company B.S.C. (c) ("the Company") was incorporated in the Kingdom of Bahrain on 10 September 2002 and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 49288. The Company is engaged in buying, selling, managing, developing and leasing of flats, offices and houses. The Company primarily operates in the Kingdom of Bahrain. The address of the Company's registered head office is Al Rossais Tower - Diplomatic Area, Office No 171 & 172, Building No. 283, Block No 317, Road No 1704, Manama, Kingdom of Bahrain.

The Group comprises of First Real Estate Company B.S.C. (closed) and the following subsidiaries and associate companies as at 31 December 2016 (2015: same)

| Company Name | Percentage shareholding | Country of incorporation | Year of incorporation | Industry |
|-----------------------------------|-------------------------|--------------------------|-----------------------|-------------|
| Subsidiaries: | | | | |
| Al Yal Real Estate Company W.L.L. | 50% | Kingdom of Bahrain | 2008 | Real Estate |
| Al Yal Seef Residence W.L.L. | 50% | Kingdom of Bahrain | 2013 | Real Estate |

First Real Estate Company is exposed, or has rights, to variable returns from its involvement with Al Yal Real Estate Company W.L.L. and Al Yal Seef Residence W.L.L.; and has the ability to affect those returns through its power over Al Yal Real Estate Company W.L.L. and Al Yal Seef Residence W.L.L. and thus are deemed as subsidiaries of First Real Estate Company B.S.C. (c).

Associates:

| | | | | |
|----------------------------------|-----|----------------------|------|-------------|
| Al-Sanbook R.E. Co. L.L.C. | 25% | United Arab Emirates | 2006 | Real Estate |
| Asdaf Real Estate Company L.L.C. | 50% | United Arab Emirates | 2009 | Real Estate |

First Real Estate Company has a significant influence i.e. the power to participate in the financial and operating policy decisions of Asdaf Real Estate Company L.L.C. but does not have control nor joint control over those policies. Hence, Asdaf is deemed as an associate of the Company.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Bahrain Commercial Companies Law, 2001.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except of investment properties which are carried at fair value.

c) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The financial statements are presented in Bahraini Dinar, which is the Group's functional and presentation currency. Except where otherwise stated, all financial information presented has been rounded off to the nearest Dinar.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

2. BASIS OF PREPARATION (CONTINUED)

d) New standards, amendments and interpretations effective from 1 January 2016

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Group:

(i) Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of this amendment had no significant impact on the consolidated financial statements

(ii) Annual Improvements to IFRSs 2012–2014 Cycle – various standards.

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The adoption of these amendments had no significant impact on the consolidated financial statements.

- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute ‘continuing involvement’ and, therefore, whether the asset qualifies for derecognition
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34

(iii) Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).

Amendments made to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures clarify that:

- The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities.
- An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity’s investment activities.
- Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement.

The adoption of this amendment had no significant impact on the consolidated financial statements.

(iv) Disclosure Initiative (Amendments to IAS 1).

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB’s Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity’s financial position or performance. There is also new guidance on the use of subtotals.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

2. BASIS OF PREPARATION (CONTINUED)

d) New standards, amendments and interpretations effective from 1 January 2016 (continued)

(iv) Disclosure Initiative (Amendments to IAS 1). (continued)

- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/ accounting policies are not required for these amendments.

The adoption of this amendment had no significant impact on the consolidated financial statements.

e) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

(i) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The Group has not early adopted Disclosure Initiative (Amendments to IAS 7) in its consolidated financial statements for the year ended 31 December 2016.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(iii) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

2. BASIS OF PREPARATION (CONTINUED)

e) New standards, amendments and interpretations issued but not yet effective (continued)

(iv) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group does not expect to have a significant impact on its consolidated financial statements.

(v) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture.

The effective date for these changes has now been postponed until the completion of a broader review – which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group does not expect to have a significant impact on its consolidated financial statements.

f) Early adoption of standards

The Group did not early adopt new or amended standards in 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

a) Basis of consolidation

i) Subsidiaries:

Subsidiaries' are entity controlled by the Group. The Group 'controls' an entity if it is exposed to, 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 entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

ii) Non-controlling interests

NCI are measured at their appropriate share of the acquiree's identifiable net assets at the date of the acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted as equity transactions.

iii) Associates:

An associate company is an enterprise in which the Company holds, directly or indirectly, more than 20% of the voting power or exercises significant influence, but not control, over the financial and operating policies. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

iv) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the enterprise. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs are incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalized as part of its cost. Borrowing costs are capitalized while acquisition or construction is actively underway and cease once the asset is substantially complete or suspended if the development of the asset is suspended.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

After initial recognition, investment property is carried at fair value. All fair value gains or losses are recognized in the profit or loss in the period in which they arise.

Investment property is derecognized either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Properties under development

Where property is under development and agreement has been reached to sell such property when construction is complete, the management considers whether the contract comprises:

- A contract to construct a property;
- A contract for the sale of a completed property

Where a contract is judged to be for the construction of a property, revenue is recognised using the percentage-of-completion method as construction progresses. Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage-of-completion method of revenue recognition is applied and revenue is recognised as work progresses.

Continuous transfer of work in progress is applied when;

- The buyer controls the work in progress, typically when the land on which the development takes place is owned by the final customer.
- All significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group.
- In such situation, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Properties acquired, constructed or in the course of construction or sale in the ordinary course of business are classified as properties under development and include the costs of:

- Freehold rights for land;
- Amounts paid to contractors for construction including the cost of construction of infrastructure; and
- Planning and design costs, costs of site preparation, professional fees for legal services, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs to sale.

The cost of properties under development recognized in the consolidated income statement on sale is determined with reference to the specific costs incurred on the property sold and on allocation of any non-specific costs based on the relative size of the property sold.

d) Financial instruments

(i) Classification

Financial assets

The Group classifies its financial assets into one of the following categories;

- Loans and receivables; and
- Available-for-sale.

Financial liabilities

The Group classifies financial liabilities into other financial liabilities category.

(iii) Recognition

The Group initially recognizes receivables, deposits on the date on which they originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognized as a separate asset or liability.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of the financial position when, and only when, the Group has the legal right to offset the amounts and intends either to settle them on a net basis or to realize the assets and settle the liability simultaneously.

(iv) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group for which there are no other appropriate methods from which to derive fair value are carried at cost less impairment allowance.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in OCI and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(v) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Receivables

Rent and other receivables are recognised at the lower of their original invoiced value or, where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

f) Cash and cash equivalents

Cash and bank balances in the consolidated statement of financial position comprise of cash on hand, cash at banks and Murabaha term deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances as defined above, net of Murabaha term deposits with original maturity of more than three months, outstanding bank overdrafts and restricted bank accounts, if any.

g) Trade and other payables

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

h) Wakala finance

Wakala finance are term borrowings obtained from commercial banks. After initial recognition, profit bearing loans and borrowings are subsequently measured at amortised cost using the effective profit rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

Profit is charged to the profit or loss as it accrues. Accrued profit is included in accruals in trade and other payables.

i) Advance from tenants

Rent received in advance from tenants is recorded as a liability and recognised as rent revenue when the rent is due.

j) Tenant deposits

Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost where time value of money is material. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term.

k) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

i) Employees' end of service benefits

Pension rights (and other social benefits) for Bahraini employees are covered by the General Organisation for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under IAS 19 – Employee Benefits, is recognised as an expense in the profit or loss.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector 2012, based on length of service and final remuneration. Provision for this, which is unfunded and which represents a defined benefit plan under IAS 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the statement of financial position date. The charge for the year is recognised as an expense in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks. The following specific recognition criteria must be met before revenue is recognized.

Rental income

Rental income receivable from operating leases, less the Group's initial direct costs of entering into leases, is recognised on a straight line basis over the lease term on ongoing leases.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option. Amounts received from tenants to terminate or to compensate of dilapidations are recognised in the profit or loss when they arise.

Interest income

Interest income is recognised as it accrues using the effective profit rate method.

n) Foreign currency translation

Transactions in foreign currencies are translated to Bahraini Dinars at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated into Bahraini Dinars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in foreign currency are translated using the exchange rate at the date of transaction.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Bahraini Dinars

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The estimates and underlying assumptions are reviewed on an ongoing basis based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised, if the revision affects only that period or in the period of the revision and any future period, if the revision affects both current and future periods.

Estimates

An external, independent valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Company's investment property every year. The fair value of the investment property is based on determination of value in use of the cash generating unit principally using income capitalization approach.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

5. INVESTMENT PROPERTIES

| | 2016 | 2015 |
|---|-------------------|-------------------|
| As at 1 January | 67,381,625 | 67,302,550 |
| Additions during the year | 367,083 | 79,075 |
| (Transfer to properties under development (note 8 | (4,538,057) | - |
| | 63,210,651 | 67,381,625 |
| Fair value changes | 91,280 | - |
| As at 31 December | 63,301,931 | 67,381,625 |

Investment property comprises of vacant plot of lands, residential and commercial properties leased to third parties.

The fair value of residential and commercial properties were determined by an external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The fair value measurement has been categorized as Level 3 fair value based on the inputs to the valuation technique of income capitalization approach.

There have been no movements into or out of level 3 category.

The following table shows the Group's valuation techniques used in measuring the fair values of the investment properties, as well as the significant unobservable inputs used.

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5. INVESTMENT PROPERTIES (CONTINUED)

| Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurements |
|--|--|---|
| Income capitalization approach: This is based on the income method which takes into consideration the estimated net rent (using the current and projected average rental rates and occupancy), and a capitalization rate applicable to the nature and type of investment properties in question. | <ul style="list-style-type: none">• Vacancy allowance: 2016 and 2015: 0% - 10%.• Capitalization rates (2016: 7-7.5%, weighted average 7.42% / 2015: 7-9%, weighted average 7.5%). | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none">• Vacancy allowance were lower (higher);• Capitalization rate were lower (higher). |

Were the capitalisation rates on market rentals assumed in the valuation sensitivity analysis to increase/decrease by 1% from the valuer's assessment, the fair value of investment properties would be an estimated BD 6,183,474 (2015: BD 5,886,648) lower or BD 7,876,776 (2015: BD 7,489,242) higher, respectively.

Fair value of the vacant plot of lands were determined by independent valuers using market comparables approach. The fair value measurement for the lands have been categorized as Level 2 fair value.

Investment properties include one parcel of land under a long term lease arrangement. The lease has been fully paid and is for a minimum of 50 years.

Included in investment properties are certain plots of land and properties with a carrying value of BD 30,493,150 as at 31 December 2016 (2015: BD 30,201,283) mortgaged against the Group's wakala finance facilities (note 16).

6. INVESTMENTS IN ASSOCIATES

The carrying amounts included in the consolidated statement of financial position represent the Group's share of net assets in associates as of 31 December and are as follows:

| | 2016 | 2015 |
|--------------------------------------|------------------|------------------|
| As at 1 January | 1,468,924 | 1,033,327 |
| Additions during the year | - | 463,500 |
| Share of gain / (loss) on associates | 13,790 | (24,065) |
| Foreign currency exchange loss | 1,129 | (3,838) |
| As at 31 December | 1,483,843 | 1,468,924 |

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6. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of the Group's investment in associates as of 31 December on the basis of unaudited financial statements:

| | <i>Sanbook</i> | <i>Asdaf</i> | 31-Dec-16 Total |
|---|----------------|--------------|----------------------------|
| Current assets | 839,418 | 3,587 | 843,005 |
| Non-current assets | 8,842,470 | - | 8,842,470 |
| Current liabilities | (3,749,400) | (2,145) | (3,751,545) |
| Net assets | 5,932,488 | 1,442 | 5,933,930 |
| Proportion of the Group's ownership | 25% | 50% | |
| Carrying amount of the investment | 1,483,122 | 721 | 1,483,843 |
| Gain / (loss) | 61,760 | (3,300) | 58,460 |
| Group's share of profit / (loss) for the year | 15,440 | (1,650) | 13,790 |
| Foreign currency exchange loss | 1,129 | - | 1,129 |

| | <i>Sanbook</i> | <i>Asdaf</i> | 31-Dec-15 Total |
|---|----------------|--------------|----------------------------|
| Current assets | 392,768 | 7,093 | 399,861 |
| Non-current assets | 5,705,364 | - | 5,705,364 |
| Current liabilities | (232,528) | (2,047) | (502,119) |
| Net assets | 5,865,604 | 5,046 | 5,603,106 |
| Proportion of the Group's ownership | 25% | 50% | |
| Carrying amount of the investment | 1,466,401 | 2,523 | 1,468,924 |
| Loss | (90,644) | (2,808) | (93,452) |
| Group's share of profit / (loss) for the year | (22,661) | (1,404) | (24,065) |
| Foreign currency exchange loss | (3,387) | (1) | (3,838) |

In 2008 the Group acquired a 25% interest in Al-Sanbook R.E. Co. ("Sanbook"). Sanbook was incorporated in May 2006 and is involved in the acquisition, sale and lease of investment properties in the United Arab Emirates.

Asdaf Real Estate Company LLC ("Asdaf") was incorporated in August 2009. The Group acquired a 50% interest in the company which is to be involved in the acquisition, sale and lease of investment properties. The company is in the initial stages of set up and has not yet commenced operations.

The associates had no contingent liabilities or capital commitments as at 31 December 2016 or 31 December 2015.

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7. AVAILABLE-FOR-SALE INVESTMENTS

| | 2016 | 2015 |
|--------------------------|------------------|------------------|
| As at 1 January | 3,376,738 | 3,402,161 |
| Impairment for the year | - | (2,816) |
| Redemption | - | (22,607) |
| As at 31 December | 3,376,738 | 3,376,738 |

The investments are carried at cost less impairment, as these are not quoted and no other appropriate methods are readily available from which to derive a reliable fair value. The exit strategy is via a trade sale or initial public offering.

8. PROPERTIES UNDER DEVELOPMENT

| | 2016 | 2015 |
|--|------------------|----------|
| As at 1 January | - | - |
| Transfer from investment properties (note 5) | 4,538,057 | - |
| Cost recognized during the year | 2,015,842 | - |
| As at 31 December | 6,553,899 | - |

9. RECEIVABLES AND OTHER ASSETS

| | 2016 | 2015 |
|--|----------------|---------|
| Advance to contractors | 1,053,371 | - |
| Tenants receivables | 364,178 | 555,677 |
| Amounts due from related parties (note 19) | 483,018 | 52,470 |
| Prepaid expenses | 64,393 | 92,005 |
| Security deposit | 85,639 | 2,695 |
| Other receivables | 3,527 | 690 |
| 2,054,126 | 703,537 | |

Amounts due from related parties represents collections from tenants made by a shareholder on behalf of the Group and commissions and other expenses paid by the Group on behalf of the shareholders. The balance is interest free and payable on demand.

Amounts due from non-controlling interests represent amounts due to the Group from the non-controlling shareholder. The amount is interest free and payable on demand.

Tenant receivables are non-interest bearing and are normally settled on cash basis and are due on rental agreements. Unimpaired receivables are not past due and are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

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9. RECEIVABLES AND OTHER ASSETS (CONTINUED)

As at 31 December, the ageing of unimpaired trade receivables is as follows:

| | Total BD | Neither past due nor impaired | Past due but not impaired | | | |
|------|-------------|----------------------------------|---------------------------|-----------------------|------------------------|-----------------|
| | | | 30 – 60 days BD | 60 – 90 days BD | 90 – 120 days BD | >120 days BD |
| 2016 | 364,178 | 226,815 | 35,971 | 18,855 | 82,537 | - |
| 2015 | 555,677 | 248,908 | 250,326 | 25,541 | 30,900 | - |

10. CASH AND BANK BALANCES

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Cash and bank balances (Short-term bank deposits (maturing within 3 months) | 3,435,769 250,000 | 4,017,934 250,000 |
| Cash and cash equivalent in statement of cash flows | 3,685,769 | 4,267,934 |
| Cash and cash equivalent (Term deposits (maturity over 3 months) | 3,685,769 750,000 | 4,267,934 750,000 |
| Cash and bank balances in statement of financial position | 4,435,769 | 5,017,934 |

Cash at banks disclosed above exclude the effect of cash deposited in a commercial bank in the State of Kuwait amounting to BD 11,876 held by the Group in a fiduciary capacity to a subsidiary shareholder (2015: BD 11,876).

Murabaha term deposits are short term deposits with commercial banks in the Kingdom of Bahrain. The deposits are denominated in Bahraini Dinars with an effective profit rate of 0.85% (2015: 0.92%) and are made for varying periods of between one to six months.

11. SHARE CAPITAL

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Authorised: 333,900,000 (2015: 333,900,000) ordinary shares of 100 fils (2015: 100 fils) each | 33,390,000 | 33,390,000 |
| Issued, subscribed and paid up | 33,390,000 | 33,390,000 |

12. SHARE PREMIUM

This represents the balance transferred after setting off share issuance and restructuring expenses incurred by the Company from the amount of 5 fils received in excess of the face value of shares from the subscribers of share capital.

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13. STATUTORY RESERVE

As required by the Bahrain Commercial Companies Law and the Company's article of association, 10% of the profit for the year has been transferred to a statutory reserve. The Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

14. GENERAL RESERVE

The general reserve, which represents funds set aside for the purpose of future capital expenditure and to enhance the capital base of the Group, is distributable.

15. RETAINED EARNINGS - NOT DISTRIBUTABLE

This represents the Group's share in the statutory reserves of its subsidiaries and is not available for distribution.

16. WAKALA FINANCE

| | 2016 | 2015 |
|-----------------------|-------------------|-------------------|
| Wakala finance 1 | 13,332,554 | 13,332,554 |
| Wakala finance 2 | 3,245,929 | 3,770,000 |
| | <u>16,578,483</u> | <u>17,102,554</u> |
| Less: current portion | (747,886) | (524,071) |
| Non-current portion | <u>15,830,597</u> | <u>16,578,483</u> |

Wakala finance 1

The finance arrangement is secured by a first legal mortgage over certain lands and properties included in the Group's investment properties with a carrying value of BD 25,635,413 (2015: BD 25,435,469) (note 5). The loan carries a profit rate of Bibor plus 2.5% p.a. 50% of the principal amount is repayable in 16 equal quarterly instalments starting 31 January 2018 and the remaining 50% is repayable at final maturity date on 31 January 2022. Profit is payable on a quarterly basis and is expensed to the profit or loss as it accrues.

Wakala finance 2

The finance arrangement is secured by a first charge over certain land included in the Group's investment properties with a carrying value of BD 4,857,737 (2015: 4,765,809) (note 5). The loan carries a profit rate of 5% p.a. The principal amount is repayable in 60 equal monthly instalments starting from 15 January 2016 with final maturity date on 15 December 2020.

Finance charges incurred on Wakala finances have been included in profit or loss as follows:

| | 2016 | 2015 |
|------------------|----------------|----------------|
| Wakala finance 1 | 677,738 | 677,391 |
| Wakala finance 2 | 183,068 | 191,118 |
| Bank charges | 66 | 314 |
| | <u>860,872</u> | <u>868,823</u> |

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17. PAYABLE TO RELATED PARTIES

The balance represents an amount payable to a shareholder from the non-controlling interests of the subsidiaries (AIDhow Real Estate) for an amount of BD 3,460,336 (2015: BD nil). This amount has been reclassified from equity to liabilities due to changes in the subsidiaries.

18. PAYABLES AND OTHER LIABILITIES

| | 2016 | 2015 |
|--|------------------|------------------|
| Payable to contractors (note 19) | 892,074 | 377,109 |
| Amounts due to a related party (note 19) | 155,466 | 32,114 |
| Current account with property manager | 106,442 | 223,070 |
| Accrued expenses | 216,002 | 226,452 |
| Accrued finance costs | 159,250 | 350,368 |
| Trade payables | 5,282 | 5,321 |
| | 1,534,516 | 1,214,434 |

Trade payables are generally non-interest bearing and are settled on 30 day terms.

19. RELATED PARTY TRANSACTIONS

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

Transactions with related parties included in the profit or loss are as follows:

- A entity related to a shareholder acts as the property manager for certain investment properties of the Group. During the year ended 31 December 2016, the Group incurred property expenses of BD 855,296 (2015: BD 783,597) with this property manager for running the day-to-day operations, renewal of contracts and securing new tenants in relation to these properties.
- A shareholder also acts as a property manager on an investment property for the Group. During the year ended 31 December 2016, the Group incurred property expenses of BD 192,819 (2015: BD 191,693) with this property manager for running the day-to-day operations, renewal of contracts and securing new tenants in relation to these properties.

Balances receivable from related parties included in the consolidated statement of financial position amounted to BD 483,018 (2015: 52,470) (note 9)

The balance payable to a related party included in the consolidated statement of financial position amounted to BD 155,466 (2015: 32,114) (note 18).

Balance payable to contractors includes an amount of BD 892,074 due to a shareholder for the development of properties (2015: BD 377,109) (note 18).

Outstanding receivable from related parties arise in the normal course of business and are interest free and unsecured. The Group only creates an allowance for impairment for related party balances where it is virtually certain the debt will not be recovered. For the year ended 31 December 2016, the Group has not recorded any impairment of amounts owed by related parties (2015: nil).

Compensation of key management personnel

Remuneration of directors and members of key management during the year amounted to BD 70,000 (2015: BD 70,000).

20. RISK MANAGEMENT

Introduction

The Group manages risk through a process of ongoing identification and monitoring of the risks it faces. The Group is exposed to interest rate risk, credit risk, currency risk and liquidity risk.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Market risk

Market risk is the risk that fair values of financial instruments will fluctuate because of changes in market prices. This comprises profit rate risk and currency risk.

Interest rate risk

The interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in the market interest rates. The Group is not subject to significant interest rate risk on its interest bearing Wakala Finance.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities when revenue or expense are denominated in a different currency from the Group's functional currency.

The Group mainly transacts its business in Bahraini Dinars and United Arab Emirates Dirhams which are all pegged to the United States Dollar, hence is not exposed to a significant currency risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations.

The Group is exposed to credit risk on its tenant and other receivables and cash and cash equivalents. Credit risk from cash and cash equivalents is managed by the Group's management in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's Board of Directors on an annual basis, and may be updated throughout the year. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. With regards to amount due from related parties, management believes that they do not represent a significant credit risk.

As the Group has let out its properties to a large number of tenants, there is no significant concentration of credit risk. The Group seeks to limit its credit risk by determining payment terms and conditions in the lease agreement with the tenants and by monitoring and following up of overdue payments. Further, credit risk is managed by requiring tenants to pay rentals in advance.

The carrying amount of financial assets represent the maximum credit exposure.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group limits its liquidity risk by ensuring bank facilities are available.

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

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20. RISK MANAGEMENT (CONTINUED)

| 2016 | <i>Less than 3 months</i> | <i>3 to 12 months</i> | <i>1 to 5 years</i> | <i>More than 5 years</i> | <i>Total</i> |
|---------------------------------------|-------------------------------|---------------------------|-------------------------|------------------------------|-------------------|
| Wakala finance | 391,221 | 1,106,809 | 11,493,461 | 6,749,595 | 19,741,086 |
| Payable to related parties | 3,460,336 | - | - | - | 3,460,336 |
| Payable to contractors | 892,074 | - | - | - | 892,074 |
| Amounts due to related parties | 155,466 | - | - | - | 155,466 |
| Current account with property manager | 106,442 | - | - | - | 106,442 |
| Accrued finance costs | 159,250 | - | - | - | 159,250 |
| Trade payables | 5,282 | - | - | - | 5,282 |
| Total | 5,170,071 | 1,106,809 | 11,493,461 | 6,749,595 | 24,519,936 |
| | <i>Less than 3 months</i> | <i>3 to 12 months</i> | <i>1 to 5 years</i> | <i>More than 5 years</i> | <i>Total</i> |
| 2015 | | | | | |
| Wakala finance | 394,924 | 1,181,069 | 10,964,769 | 8,815,911 | 21,356,673 |
| Payable to contractors | 377,109 | - | - | - | 377,109 |
| Amounts due to related parties | 32,114 | - | - | - | 32,114 |
| Current account with property manager | 223,070 | - | - | - | 223,070 |
| Accrued finance costs | 350,368 | - | - | - | 350,368 |
| Trade payables | 5,321 | - | - | - | 5,321 |
| Total | 1,382,906 | 1,181,069 | 10,964,769 | 8,815,911 | 22,344,655 |

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015. Capital comprises equity of the Group and is measured at BD 50,648,338 at 31 December 2016 (31 December 2015: BD 50,020,515).

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21. 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 in the principal or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance of risk.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measures:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values of financial assets and financial liabilities carried at amortised cost approximate the carrying values as at the reporting date due to their short term nature.

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22. FINANCIAL INSTRUMENTS BY CATEGORY

The classification of financial assets and liabilities by accounting categorization is as follows:

| 2016 | Loans and receivables | Available-for-sale | Other financial liabilities | Total carrying amount |
|--------------------------------|-----------------------|--------------------|-----------------------------|-----------------------|
| Available-for-sale investments | - | 3,376,738 | - | 3,376,738 |
| Receivables & other assets | 2,054,126 | - | - | 2,054,126 |
| Cash and bank balances | 4,435,769 | - | - | 4,435,769 |
| | 6,489,895 | 3,376,738 | - | 9,866,633 |
| Payable & other liabilities | - | - | 3,141,883 | 3,141,883 |
| Advances from tenants | - | - | 281,988 | 281,988 |
| Wakala finance | - | - | 16,578,483 | 16,578,483 |
| Payable to related parties | - | - | 3,460,336 | 3,460,336 |
| | - | - | 23,462,690 | 23,462,690 |
| 2015 | Loans and receivables | Available-for-sale | Other financial liabilities | Total carrying amount |
| Available-for-sale investments | - | 3,376,738 | - | 3,376,738 |
| Receivables & other assets | 770,423 | - | - | 770,423 |
| Cash and bank balances | 5,017,934 | - | - | 5,017,934 |
| | 5,788,357 | 3,376,738 | - | 9,165,095 |
| Payable & other liabilities | - | - | 637,614 | 637,614 |
| Advances from tenants | - | - | 256,421 | 256,421 |
| Wakala finance | - | - | 17,102,554 | 17,102,554 |
| | - | - | 17,996,589 | 17,996,589 |

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23. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for at the date of consolidated statement of financial position but not provided for, relating to the Group, amounted to nil (2015: nil).

24. NON-CONTROLLING INTERESTS

The following table summarises the information related to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations.

| 31 December 2016 | Al Yal Seef Residence | Al Yal Real Estate | Intra-group eliminations | Total |
|--|------------------------------|---------------------------|---------------------------------|-------------------|
| <i>In BHD</i> | | | | |
| NCI percentage | 50% | 50% | | |
| Non-current assets | 10,203,396 | 10,537,359 | - | 20,740,755 |
| Current assets | 470,413 | 2,807,700 | (136,222) | 3,141,891 |
| Current liabilities | 2,105,093 | 7,302,890 | (136,222) | 9,271,761 |
| Net assets | 8,568,716 | 6,042,169 | - | 14,610,885 |
| Net assets attributable to NCI | 4,284,358 | 3,017,216 | - | 7,301,574 |
| Revenue | 1,325,127 | 5,224 | - | 1,330,351 |
| Profit | 1,021,771 | (189,357) | - | 832,414 |
| OCI | - | - | - | - |
| Total comprehensive income | 1,021,771 | (189,357) | - | 832,414 |
| Profit allocated to NCI | 510,885 | (94,678) | - | 416,207 |
| OCI allocated to NCI | - | - | - | - |
| Cash flows from operating activities | - | 3,673,191 | - | 3,673,191 |
| Cash flows from investing activities | - | (2,018,530) | - | (2,018,530) |
| Cash flows from financing activities (dividends to NCI: nil) | - | - | - | - |
| Net increase in cash and cash equivalents | - | 1,654,661 | - | 1,654,661 |

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24 NON-CONTROLLING INTERESTS (continued)

| 31 December 2015 | Al Yal Seef Residence | Al Yal Real Estate | Intra-group eliminations | Total |
|--|--------------------------|-----------------------|-----------------------------|------------|
| <i>In BHD</i> | | | | |
| NCI percentage | 50% | 50% | | |
| Non-current assets | 10,000,000 | 8,513,744 | - | 18,513,744 |
| Current assets | 623,780 | 16,724 | (304,339) | 336,165 |
| Current liabilities | 442,639 | 12,625 | (304,339) | 150,925 |
| Net assets | 10,181,141 | 8,517,842 | - | 18,698,983 |
| Net assets attributable to NCI | 5,090,572 | 4,267,766 | - | 9,358,338 |
| Revenue | 1,030,646 | - | - | 1,030,646 |
| Profit | 690,712 | (892) | - | 689,820 |
| OCI | - | - | - | - |
| Total comprehensive income | 690,712 | (892) | - | 689,820 |
| Profit allocated to NCI | 345,356 | (446) | - | 344,910 |
| OCI allocated to NCI | - | - | - | - |
| Cash flows from operating activities | - | 11,876 | - | 11,876 |
| Cash flows from investing activities | - | - | - | - |
| Cash flows from financing activities (dividends to NCI: nil) | - | - | - | - |
| Net increase in cash and cash equivalents | - | 11,876 | - | 11,876 |

25. APPROPRIATIONS

The Board of Directors have proposed the following appropriations for the year 2016:

| | 2016 | 2015 |
|---|------------------|------------------|
| Cash dividend proposed – 5 fils per share | 1,669,500 | 1,669,500 |
| | 1,669,500 | 1,669,500 |

