The Bahrain Ship Repairing and Engineering Company BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

CONTENTS

GENERAL INFORMATION

The Bahrain Ship Repairing and Engineering Company BSC is a Public Shareholding Company registered in the Kingdom of Bahrain in 1962.

Commercial Registration	715
Head Office	Mina Salman Industrial Area, Kingdom of Bahrain P.O. Box 568 Telephone: 17725300 Telefax: 17729891 E-mail: mainoffice@basrec.com.bh
Board of Directors	
Mubarak Jasim Kanoo	*Chairman*
Khalid Mohamed Kanoo	*Deputy Chairman*
Fawzi Ahmed Kanoo	*Executive Director*
Khalid Yousuf Abdul Rahman	*Director*
Abdulla Yousuf Akbar Ali Reza	*Director*
Habib Mahmood Shehab	*Director (up to November 2016)*
Chief Executive Officer	N.E. Saadi
Bankers	National Bank of Bahrain BSC Al Salam Bank BSC Bank of Bahrain and Kuwait BSC Ahli United Bank BSC Bahrain Islamic Bank National Bank of Kuwait
Auditors	KPMG Fakhro
Registrar	Karvy Computershare WLL

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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

The Bahrain Ship Repairing and Engineering Company
Manama – Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of Bahrain Ship Repairing and Engineering Company (the "Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and 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 Company 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 Company 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.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(i) Contract accounting and revenue recognition

Refer to use of estimate and judgement in note 2(g), revenue recognition and due from contract customers policies in note 3(h) and 3(m) respectively.

Description	***How the matter was addressed in our audit***
The recognition of profit on contracts is based on the stage of completion of work completed. Forecast profit or loss on contracts is a key matter for our audit because of the judgment involved in preparing suitable estimates of the forecast costs and revenue on contacts. An error in the contract forecast could results in a material variance in the amount of profit or loss recognized to date and therefore also in the current period. The forecast profits on contracts include key judgments over the expected recovery of costs arising from variations and claims. The inclusion of these amounts in the contract forecast where they are not recoverable could result in a material error in the level of profit or loss recognized by the Group.	Our procedures over contracting revenue included: • We read all significant contracts and discussed each with management to obtain full understanding of the specific terms and risk, which informed our consideration of whether revenue was appropriately recognised; • We evaluated and tested the operating effectiveness of internal controls over the accuracy and timing of revenue recognized in the financial statements, including controls over detailed contract reviews performed by management that included estimating total cost, stage of completion of contracts, profit margin and evaluating contract profitability. • We challenged the financial assessment of the contract progress and percentage complete through discussion with management and comparing the outcome of our discussion with the underlying records;

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)
The Bahrain Ship Repairing and Engineering Company

(i) Contract accounting and revenue recognition (continued)

Description	How the matter was addressed in our audit
	▪ We evaluated significant exposure to contract variations, claims and liquidated damages for late delivery, if any, of work by assessing management estimates included in the quarterly valuation report in the which tracks the nature, quantum and status of such exposures. ▪ Assessing the adequacy of the Group's disclosures in relation to contract accounting and revenue recognition by reference to the requirements of relevant accounting standards.

(ii) The recoverability of trade receivables and adequacy of bad debt provision

Refer to use of estimates and judgements in note 2(g), impairment policy in note 3(c), and notes 5 and 22 on disclosure of credit risk in the financial statements

Description	How the matter was addressed in our audit
Trade receivables makes up 12.5% of the Group's total assets. Significant judgment is required by the Group in assessing the adequacy of the trade receivables provision through considering the expected recoverability of the year end trade receivables.	Our procedures included: ▪ testing the design and operating effectiveness of the Group's relevant credit controls and collection procedures; ▪ challenging the Group's assumptions in calculating the bad debt provision. This includes assessing the aging of trade receivables in comparison to previous years and testing the integrity of aging; ▪ assessing the recoverability of outstanding trade receivables through the examination of subsequent cash receipts; ▪ assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision by reference to the requirement of relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report, which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)
The Bahrain Ship Repairing and Engineering Company

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 Group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)
The Bahrain Ship Repairing and Engineering Company

Auditors' responsibilities for the audit of the consolidated financial statements (continued)
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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other 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 chairman's 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's or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Jalil Al Aali.

KPMG

KPMG Fakhro
Partner registration number 100
26 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

Bahraini Dinars

	note	2016	2015
ASSETS			
Bank deposits		-	61,000
Available-for-sale investments	8	3,189,861	3,226,735
Held-to-maturity investments	9	2,006,841	500,574
Investment property	10	3,272,345	3,415,563
Property, plant and equipment	12	5,385,782	6,253,518
Total non-current assets		**13,854,829**	13,457,390
Cash and cash equivalents	4	5,290,376	3,191,264
Bank deposits		2,814,282	4,841,964
Trade receivables	5	3,373,128	2,466,570
Due from contract customers		889,797	1,564,627
Inventories	6	439,323	469,647
Other assets	7	332,768	336,589
Total current assets		**13,139,674**	12,870,661
Total assets		**26,994,503**	26,328,051
EQUITY AND LIABILITIES			
Equity			
Share capital	14	1,800,000	1,800,000
Reserves		3,941,663	4,436,459
Retained earnings		17,948,254	16,975,864
Total equity (page 12)		**23,689,917**	23,212,323
Liabilities			
Employees' benefits	11	617,197	602,532
Total non-current liabilities		**617,197**	602,532
Bank overdraft		457,067	229,664
Payable to contractor		444,425	444,425
Trade payables		780,805	900,275
Other payables and accrued expenses	13	1,005,092	938,832
Total current liabilities		**2,687,389**	2,513,196
Total liabilities		**3,304,586**	3,115,728
Total equity and liabilities		**26,994,503**	26,328,051

The consolidated financial statements, which consist of pages 10 to 40 were approved by the Board of Directors on 26 February 2017 and signed on its behalf by:

Mubarak Jasim Kanoo
Chairman

Khalid Yousuf Abdul Rahman
Director

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016 Bahraini Dinars

	Note	2016	2015
Revenue	15	**6,722,428**	6,038,498
Cost of sales		(3,896,748)	(3,615,116)
Gross profit		**2,825,680**	2,423,382
General and administrative expenses	16	(1,498,455)	(1,468,743)
Interest income		196,166	173,103
Dividend income		170,938	186,009
Other income	17	218,778	253,900
Profit for the year		**1,913,107**	1,567,651
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net changes in fair value of available-for-sale investments	8	(535,513)	(49,891)
Total other comprehensive income for the year		**(535,513)**	(49,891)
Total comprehensive income for the year		**1,377,594**	1,517,760
Basic and diluted earnings per share	18	**106 fils**	87 fils

The consolidated financial statements, which consist of pages 10 to 40 were approved by the Board of Directors on 26 February 2017 and signed on its behalf by:

Mubarak Jasim Kano
Chairman

Khalid Yousuf Abdul Rahman
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

Bahraini Dinars

2016	Share capital	Statutory reserve	General reserve	Charity Reserve	Fair value reserve	Retained earnings	Total
At 1 January 2016	1,800,000	907,743	700,000	215,773	2,612,943	16,975,864	23,212,323
Comprehensive income for the year:							
Profit for the year	-	-	-	-	-	1,913,107	1,913,107
Other comprehensive income							
Net changes in fair value of available-for-sale investments	-	-	-	-	(535,513)	-	(535,513)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(535,513)**	**1,913,107**	**1,377,594**
Charity contribution approved for 2015	-	-	-	39,191	-	(39,191)	-
Dividends declared for 2015	-	-	-	-	-	(900,000)	(900,000)
Transfer to statutory reserve for 2016	-	1,526	-	-	-	(1,526)	-
At 31 December 2016	**1,800,000**	**909,269**	**700,000**	**254,964**	**2,077,430**	**17,948,254**	**23,689,917**

The consolidated financial statements consist of page 10 to 40.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016 (continued)

Bahraini Dinars

2015	Share capital	Statutory reserve	General reserve	Charity Reserve	Fair value reserve	Retained earnings	Total
At 1 January 2015	1,800,000	904,007	700,000	181,706	2,662,834	16,346,016	22,594,563
Comprehensive income for the year:							
Profit for the year	-	-	-	-	-	1,567,651	1,567,651
Other comprehensive income							
Net changes in fair value of available-for-sale investments	-	-	-	-	(49,891)	-	(49,891)
Total comprehensive income for the year	-	-	-	-	(49,891)	1,567,651	1,517,760
Charity contribution approved for 2014	-	-	-	34,067	-	(34,067)	-
Dividends declared for 2014	-	-	-	-	-	(900,000)	(900,000)
Transfer to statutory reserve for 2015	-	3,736	-	-	-	(3,736)	-
At 31 December 2015	1,800,000	907,743	700,000	215,773	2,612,943	16,975,864	23,212,323

The consolidated financial statements consist of page 10 to 40.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

Bahraini Dinars

	note	2016	2015
OPERATING ACTIVITIES			
Cash receipts from customers		6,490,700	4,581,205
Cash paid to suppliers and employees		(4,991,117)	(4,020,151)
Directors' remuneration paid	24	(105,059)	(105,059)
Directors' sitting fee paid	24	(26,941)	(26,941)
Net cash generated from operating activities		**1,367,583**	429,054
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	12	(235,149)	(1,153,047)
Acquisition of held-to-maturity investment		(1,503,000)	-
Acquisition of available-for-sales investment	8	(498,639)	-
Bank deposits, net		2,088,682	431,894
Advance to contract returned to the Group	12	876,849	-
Interest and dividends received		662,680	605,043
Net cash from / (used in) investing activities		**1,391,423**	(116,110)
FINANCING ACTIVITIES			
Dividends paid		(884,697)	(884,732)
Charities paid		(2,600)	(12,859)
Net cash used in financing activities		**(887,297)**	(897,591)
Net increase / (decrease) in cash and cash equivalents during the year		**1,871,709**	(584,647)
Cash and cash equivalents at 1 January		2,961,600	3,546,247
Cash and cash equivalents at 31 December	4	**4,833,309**	2,961,600

1 REPORTING ENTITY

The Bahrain Ship Repairing and Engineering Company BSC (the "Company") is a Public Shareholding Company registered in Bahrain on 16 September 1962 under commercial registration number 715. The Company's principal activities are to provide repair and maintenance services to vessels operating in the Arabian Gulf and emergency repairs to the larger ocean-going ships that pass through the area. The Company also has an engineering contracting and trading division (TEAMS).

The consolidated financial statements comprise the results of the Company, and its subsidiary (collectively "the Group").

The subsidiary of the Group included in these consolidated financial statements is as follows:

Company	Place of business/country of incorporation	Proportion of ownership and voting power held by the Group	Principal activities
Marine and Industrial Pump Repair (Gulf) SPC	Kingdom of Bahrain	100 %	Pump repair

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and in conformity requirements of the Bahrain Commercial Company Law 2001.

b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for available-for-sale investments that are stated at their fair values.

c) 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. Early adoption is permitted.

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

2 *BASIS OF PREPARATION (continued)*

c) *Standards, amendments and interpretations effective from 1 January 2016 (continued)*

(ii) *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
The IASB has made amendments to IAS 27 Separate Financial Statements which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

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

(iii) *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 this amendment had no significant impact on the consolidated financial statements

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

(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.

(ii) *IFRS 15 Revenue from Contracts with Customers*
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. 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 Company/ 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.

2 *BASIS OF PREPARATION (continued)*

d) *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 recognises 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 has started an initial assessment of the potential impact on its consolidated financial statements.

e) Early adoption of standards

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

f) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Bahraini Dinars ("BHD"), which is the Group's functional and presentation currency.

g) Use of estimates and judgements

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

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(i) *Impairment of available-for-sale equity investments*

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

(ii) *Useful life and residual value of property, plant and equipment*

The Group reviews the useful life and residual value of the property, plant and equipment at each reporting date to determine whether an adjustment to the useful life and residual value is required. The useful life and residual value is estimated based on the similar assets of the industry, and future economic benefit expectations of the management.

(iii) *Contract accounting and revenue recognition*

The revenue to be recognised on a project is based on a percentage of completion. Judgement is involved in determining the percentage of completion.

2 BASIS OF PREPARATION (continued)

g) Use of estimates and judgements (continued)

(iv) Impairment of inventory
The Group reviews the carrying amounts of inventories at each reporting date to determine whether the inventories have been impaired. The Group identifies the inventories which have been impaired based on evaluation of age of the inventory, their movement and consumption over the period and estimate of their future demand. If inventories are assessed as impaired, they are written down to their recoverable amounts which are estimated based on past experience and future expectations of realisation by the management.

(v) Impairment of receivables
The Group reviews the carrying amounts of the receivables at each reporting date to determine whether the receivables have been impaired. Specific evaluation is made for each receivable balance and the recoverable amount is estimated based on past experience with each customer and estimated cash flows. Judgement is involved in assessing the adequacy of the provision for bad debts.

(vi) Impairment of investment property
The Group conducts valuation of its investment property periodically using external independent valuers to assess for impairment. All of the Group's investment property is situated in Bahrain. Given the dislocation in the local property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities.

a) Basis of consolidation

(i) Subsidiaries
A subsidiary company is an 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 entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with the subsidiary are eliminated to the extent of the Group interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(iii) Loss of control
When the Group loses control over a subsidiary, it derecognises the assets, liabilities of the subsidiary, and any related non-controlling interest, if any, and any other components of the equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

b) Foreign currency transactions and balances

Monetary assets and liabilities are translated into Bahraini Dinars at year end exchange rates. Transactions in foreign currencies during the year are converted at the rate ruling at that time. Foreign exchange gains and losses on monetary assets and liabilities are recognised in the profit or loss. Translation differences for non-monetary items that are measured at fair values, such as equity classified as available-for-sale investments, is included in the fair value reserve in equity.

c) Financial instruments

(i) Classification

The Group classifies its financial assets in the following:

- loans and receivables,
- available-for-sales investments, and
- held-to-maturity investments.

The classification depends on the purpose for which investments were acquired. Management determines the classification of its investments at initial recognition and in the case of assets classified as held-to-maturity, revaluates this designation at the end of each reporting period.

The Group classifies its financial liabilities as "at amortised cost".

(ii) Recognition

Regular way purchases and sales of financial assets are recognised on trade date, i.e., the date on which the Group commits to purchase or sell the asset.

(iii) Derecognition

Financial assets

The Group derecognises 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.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

(iv) Measurement

At initial recognition the Group measures a financial assets at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables and held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale investments are subsequently carried at fair value. Gain or loss arising from change in fair value are recognised in other comprehensive income.

Financial liabilities are initially recognised at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using effective interest rate.

(v) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

(vi) Impairment

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that it they are impaired. Financial assets are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the assets. All impairment losses are recognised in the profit or loss.

Assets carried at amortised cost

An impairment loss in respect of financial assets measured at amortised cost is measured as the difference between the asset's carrying amount, and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and decrease can be related objectively to an event occurs after the impairment was recognised, the reversed of previously recognised loss is recognised in profit or loss.

Assets classified as available-for-sale

For impairment of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment.

If there is an objective evidence of impairment, the cumulative loss measured as the difference between acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For available-for-sale financial assets that are equity securities, the reversal is through equity.

d) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses of other assets are recognised in prior periods and assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

e) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are designated as available for sale or are not classified in any other category of financial assets. Available-for-sale investments are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, are recognised in other comprehensive income and presented in the fair value reserve in equity. In the event of sale, disposal, or impairment, the cumulative gains and losses recognised previously in other comprehensive income are transferred to profit or loss.

f) Held-to-maturity investments

"Held-to-maturity" investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. Held to maturity investments comprise debt securities.

g) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods supplied and services rendered in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Group's activities, as described below:

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue recognition (continued)

(i) Ship repairing and maintenance contracts, and pump repairing and maintenance are recognised based on percentage of completion of the contract. Contract revenue and expense are recognised in profit or loss in proportion to the stage of completion of the contract as soon as the outcome of the contract can be measured reliably. Contract revenue includes the initial amount agreed in a contract plus any variations in contract work and claims to the extent that it is probable that they can be measured reliably and will be accepted by the customer.

The stage of completion is assessed by reference to surveys of work performed and completion of a physical proportion of the contract work where ever applicable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Revenue from sale of engineering products is recognised when the customer becomes entitled to take possession of the goods.

(iii) Rental income from investment property is recognised in the profit or loss on accrual basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iv) Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Foreign currency gains and losses are reported on a net basis.

(v) Interest income is recognised on accrual basis using the effective interest rate method.

i) Inventories

Inventories are measured at the lower of cost and estimated net realisable value. Cost is determined on a first-in-first-out principle. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provision is made for obsolete and slow-moving items, the charge for which is included in cost of sales.

j) Investment property

Investment property are properties which are held either to earn rental income or for capital appreciation or for both. Investment property is stated at cost less accumulated depreciation and any impairment losses. Freehold land is not depreciated.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing cost.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. No depreciation is charged on land. Buildings are depreciated over their estimated useful lives of 30 years.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Property, plant and equipment

(i) Recognition and measurement
Items of property, plant and equipment held for use in the provision of service, or for administrative purposes on a continuing basis and not intended for sale in the ordinary course of business, are carried at cost less accumulated depreciation and any impairment losses. The cost of additions and major improvements are capitalised.

(ii) Subsequent costs
Subsequent costs are included in the assets carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the profit or loss.

(iii) Depreciation
Depreciation is calculated on cost by the straight-line method at annual rates which are intended to write off the cost of the assets over the following estimated useful lives:

Description	Useful lives in years
Jetties and buildings	10 - 30
Floating dock	12
Cranes	5 - 15
Motor vehicles	3
Launches	5 -15
Furniture and equipment	2 - 5

All depreciation is charged to the profit or loss. When an asset is sold or otherwise retired, the cost and related accumulated depreciation are removed and any resulting gain or loss is taken to the profit or loss. The estimated useful working lives of the assets are periodically reviewed by the management.

l) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

m) Due from contract customers

Due from contract customers represents the gross unbilled amount expected to be collected from customers for contract work performed till date. It is measured at cost plus profit recognised till date less progress billings and recognised losses when incurred.

n) Operating leases

Leases where a significant portion of the risks and rewards of ownership are not retained by the lessee are classified as operating leases. Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease.

o) Cash and cash equivalent

Cash and cash equivalent comprises of balances held in current accounts with banks and bank deposits maturing within 3 months when acquired and are subject to insignificant risk of changes in the fair value.

p) Statutory reserve

In accordance with the Company's Articles of Association, 10 % of net profit is appropriated to a statutory reserve. The Bahrain Commercial Companies Law 2001 stipulates that appropriations to the statutory reserve may cease when it reaches 50 % of the share capital. The statutory reserve is distributable only in accordance with the provisions of Bahrain Commercial Companies Law 2001.

q) General reserve

Transfers made to the general reserve are in accordance with Article 64 of the Articles of Association. The Board of Directors resolved to cease transfers to the general reserve in 1977. The general reserve and retained earnings represent accumulated profits set aside for future utilisation at the discretion of the directors and shareholders, and are distributable.

r) Charity reserve

Charity reserve represents transfers from retained earnings that are set aside for charitable purposes.

s) Dividends declared

Dividends declared are recognised as a liability in the period in which they are approved by the shareholders.

t) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the Group's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

v) Employees' benefits

Pension rights (and other social benefits) for Bahraini employees are covered by the Social Insurance Organisation 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, 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, has been made by calculating the notional liability had all employees left at the reporting date.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

v) *Employees' benefits (continued)*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal obligation to pay this amount as a result of a past service provide by the employee and the obligation can be estimated reliably.

w) Provisions

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

4 CASH AND CASH EQUIVALENTS

	2016	2015
Cash in hand	11,498	12,800
Cash at bank	605,206	266,602
Short-term bank deposits	4,673,672	2,911,862
Cash and cash equivalents in the statement of financial position	**5,290,376**	3,191,264
Bank overdraft	(457,067)	(229,664)
Cash and cash equivalents in the statement of cash flows	**4,833,309**	2,961,600

As at reporting date, average interest rate on short-term bank deposits is 2.02 % (2015: 1.86 %).

5 TRADE RECEIVABLES

	2016	2015
Gross receivables	3,469,936	2,515,623
Less: Impairment allowances	(96,808)	(49,053)
	3,373,128	2,466,570

Movement on impairment allowance is as follows:

	2016	2015
At 1 January	49,053	20,300
Charge for the year	76,647	43,253
Written back during the year	-	(1,300)
Written off during the year	(28,892)	(13,200)
At 31 December	**96,808**	49,053

Information about the Group's exposure to credit risks, and impairment losses for trade and other receivable is included in note (22).

6 INVENTORIES

	2016	2015
Goods for resale	554,739	496,277
Raw materials and consumables	436,109	432,330
	990,848	928,607
Provision for slow-moving and obsolete items	(551,525)	(458,960)
	439,323	469,647

Movement on impairment allowance is as follows:

	2016	2015
At 1 January	458,960	411,427
Charge for the year	92,565	47,533
At 31 December	**551,525**	458,960

During the year, inventories of BD 928,394 (2015: BD 736,754) were recognised as an expense in cost of sales.

7 OTHER ASSETS

	2016	2015
Interest receivable	66,420	151,587
Prepaid expenses	15,871	51,819
Advances to suppliers	105,480	-
Others	144,997	133,183
	332,768	336,589

8 AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
Quoted equity securities	3,189,861	3,226,735
	3,189,861	3,226,735

Movement on available for sales investments during the year as follows:

	2016	2015
At 1 January	3,226,735	3,276,626
Addition during the year	498,639	-
Fair value changes	(535,513)	(49,891)
At 31 December	**3,189,861**	3,226,735

9 HELD-TO-MATURITY INVESTMENTS

	2016	2015
Unquoted government of Bahrain Development Bonds	**2,006,841**	500,574

Held-to-maturity investments represent a Government of Bahrain Development Bonds issued by the Central Bank of Bahrain with an interest rate range from 4.45 – 5.875% and maturities between 2017 - 2024.

10 INVESTMENT PROPERTY

	Freehold land	Buildings	Total 2016	Total 2015
Cost				
At 1 January	355,674	4,289,439	4,645,113	4,645,113
Additions	-	-	-	-
At 31 December	**355,674**	**4,289,439**	**4,645,113**	4,645,113
Depreciation				
At 1 January	-	1,229,550	1,229,550	1,085,932
Charge for the year	-	143,218	143,218	143,618
At 31 December	**-**	**1,372,768**	**1,372,768**	1,229,550
Net book value at 31 December	**355,674**	**2,916,671**	**3,272,345**	3,415,563

Amount recognised in statement of profit or loss and other comprehensive income for investment property as follows:

	2016	2015
Gross rental income	412,951	421,630
Depreciation	(143,218)	(143,618)
Other expenditure	(95,754)	(98,699)
Net rental income (note 17)	**173,979**	179,313

Investment property comprises principally freehold land and buildings owned by the Group leased to third parties. The fair value of the investment properties of BD 16.21 million has been determined by an independent third party property valuer. The independent valuer has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on market comparable approach that reflects recent transaction prices for similar properties. There has been no change to the valuation technique during the year.

The Group has classified the fair value of the investment property as level 2 in the fair value hierarchy.

11 EMPLOYEES' BENEFITS

	2016	2015
Balance at 1 January	602,532	593,971
Charge during the year	56,447	52,277
Paid during the year	(41,782)	(43,716)
At 31 December	**617,197**	602,532
Average number of employees	222	202

The Group's contributions to Social Insurance Organisation pension scheme in respect of Bahraini employees for 2016 were BD 46,287 (2015: BD 54,843).

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12 PROPERTY, PLANT AND EQUIPMENT

	Jetties and buildings	Plant and equipment	Motor vehicles and launches	Furniture and equipment	Capital work-in-progress	Total 2016	Total 2015
Cost							
At 1 January	7,277,108	3,494,098	250,443	398,447	1,777,901	13,197,997	12,058,828
Additions	16,900	73,335	7,721	7,457	129,736	235,149	1,153,047
Advance refunded *	-	-	-	-	(876,849)	(876,849)	(13,878)
At 31 December	**7,294,008**	**3,567,433**	**258,164**	**405,904**	**1,030,788**	**12,556,297**	13,197,997
Depreciation							
At 1 January	3,341,752	2,978,835	249,106	374,786	-	6,944,479	6,704,849
Charge for the year:							
Cost of sales	151,181	60,944	-	1,360	-	213,485	223,525
Operating expenses	-	663	2,494	9,394	-	12,551	16,105
At 31 December	**3,492,933**	**3,040,442**	**251,600**	**385,540**	-	**7,170,515**	6,944,479
Net book value	**3,801,075**	**526,991**	**6,564**	**20,364**	**1,030,788**	**5,385,782**	6,253,518

The service facilities and head office buildings of the Group are built on leasehold land, the lease of which was renewed in January 1997 for a further period of 25 years.

* This represents advance payment to a contractor for a project that was later cancelled and money returned to the Group (page 13).

13 OTHER PAYABLES AND ACCRUED EXPENSES

	2016	2015
Accrued expenses	407,561	391,076
Provision for charity	179,150	181,650
Provision for leave salary	105,064	94,033
Unclaimed dividends	152,977	137,674
Other payables	160,340	134,399
	1,005,092	938,832

14 SHARE CAPITAL

	2016	2015
a) Authorised share capital		
18,000,000 (2015: 18,000,000) shares of 100 fils each	**1,800,000**	1,800,000

	2016	2015
b) Issued and fully paid up		
18,000,000 (2015: 18,000,000) shares of 100 fils each	**1,800,000**	1,800,000

14 *SHARE CAPITAL (continued)*

Additional information on shareholding pattern

(i) Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5 % or more of issued and fully paid shares.

	Nationality	No. of shares	% holding
Yusuf Bin Ahmed Kanoo WLL	Bahraini	8,485,110	47.1%
Social Insurance Organisation (SIO)	Bahraini	1,350,038	7.5%

(ii) The Group has only one class of equity shares and the holders of these shares have equal voting rights.

(iii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	**Number of Shares**	**Number of shareholders**	**% of total issued shares**
Less than 1 %	5,194,989	659	28.86
1 % to less than 5 %	2,969,863	10	16.50
5 % to less than 10 %	1,350,038	1	7.50
10 % to less than 20 %	-	-	-
20 % to less than 50 %	8,485,110	1	47.14
50 % and above	-	-	-
	18,000,000	**671**	**100.00**

** Expressed as a percentage of total issued and fully paid shares of the Group.*

97.84 % of the shares are held by Bahraini individuals and legal entities incorporated in the Kingdom of Bahrain and 2.16 % by other nationalities. Total shares held by the directors at 31 December 2016 were 6.32 % (2015: 7.11%).

15 REVENUE

	2016	2015
Ship repairing	6,130,273	5,542,565
Trading	438,675	319,424
Pump repairing	153,480	176,509
	6,722,428	6,038,498

Bahraini Dinars

16 GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Staff expenses	989,074	950,027
Directors' remuneration (note 24)	132,000	132,000
Rent expense	132,674	123,856
Insurance expense	64,448	49,404
Professional fees	47,196	37,736
Printing and stationery	22,707	6,812
Advertising and marketing expenses	19,145	28,386
Depreciation (note 12)	12,551	16,105
Communication expenses	11,124	11,394
Travel and entertainment	6,536	6,983
Other expenses	61,000	106,040
	1,498,455	1,468,743

17 OTHER INCOME

	2016	2015
Property income, net (note 10)	173,979	179,313
Scrap sale	16,399	46,708
Other miscellaneous income	28,400	27,879
	218,778	**253,900**

18 EARNING PER SHARE

	2016	2015
Profit for the year	1,913,107	1,567,651
Weighted average number of shares during the year	18,000,000	18,000,000
Basic earnings per share	**106 fils**	87 fils

The Group does not have any convertible debt instruments as at reporting date.

19 PROPOSED APPROPRIATIONS

The Board of Directors propose a cash dividend of XX% (2015: 50 %) of the paid-up capital and other appropriations as follows:

	2016	2015
Dividend	XXX	900,000
Transfer to charity contributions	XXX	39,191
	XXX	939,191

20 SEGMENTAL INFORMATION

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors review internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Ship repairing and investments segment includes the Group's main operating segment and its core operation of ship repairing and investment activities.
- Trading segment includes the Company's trading division 'TEAMS' that specialises in the sale of mechanical, electrical and pumps.
- Pump repairing segment represents the Company's subsidiary that is specialised in pump repairing.

Performance is measured based on segment profit as included in the internal management reports that are reviewed by the Group Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Group operates in Bahrain and hence does not have separate geographical segments.

The Group has the following business segments:

2016	Ship repairing & investment	Trading	Pump repairing	Elimination of inter-segment transactions	Total
Revenue	6,135,953	438,675	153,480	(5,680)	**6,722,428**
Gross Profit	2,711,392	85,907	28,381	-	**2,825,680**
Depreciation	218,625	731	6,680	-	**226,036**
Interest, dividend and other income	585,322	560	-	-	**585,882**
Profit / (loss) for the year	1,903,890	(6,047)	15,264	-	**1,913,107**
Total assets	26,838,230	501,407	219,723	(564,857)	**26,994,503**
Total liabilities	(3,158,795)	(507,454)	(153,194)	514,857	**(3,304,586)**

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20 SEGMENTAL INFORMATION (continued)

2015	Ship repairing & investment	Trading	Pump repairing	Elimination of inter-segment transactions	Total
Revenue	5,558,266	319,424	176,509	(15,701)	6,038,498
Gross Profit	2,294,306	72,921	56,155	-	2,423,382
Depreciation	233,923	778	4,929	-	239,630
Interest, dividend and other income	612,253	(318)	1,077	-	613,012
Profit / (loss) for the year	1,562,559	(30,435)	35,527	-	1,567,651
Total assets	26,146,110	449,150	197,300	(464,509)	26,328,051
Total liabilities	(2,940,145)	(478,319)	(111,773)	414,509	(3,115,728)

21 GROUP'S PROPERTIES

Property	Freehold / leasehold land	Usage	Estimated age (years)	Fair value (BD)	Location
Shipyard land	Leasehold	Operations	Indefinite	Not determined	Mina Salman Industrial area
Shipyard building	On leasehold land	Office, store	53	Not determined	Mina Salman Industrial area
Stockyard land	Leasehold	Operations	52	Not determined	Mina Salman Industrial area
Stockyard building	On leasehold land	Office, store	50	Not determined	Mina Salman Industrial area
Land	Freehold	Investment	Indefinite	BD 3.88m	Al Markh, Saar
Residential villas	Freehold	Investment	11	BD 10.95m	Al Markh, Saar
Residential villas	Freehold	Investment	4	BD 1.38m	Al Markh, Saar
Showroom & warehouse building	Leasehold	Operations	4	Not determined	Mina Salman Industrial Area

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets of the Group include cash and cash equivalents, bank deposits, available-for-sale investments, held-to-maturity investments, due from contract customers and trade receivables. Financial liabilities of the Group include trade payables, payable to contractor, bank overdraft and accrued expenses.

a) Risk management framework

The Group's exposure to risks and its approach to managing these risks are discussed below. The Group has exposure to the following risks from use of its financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The note also presents certain quantitative disclosures in addition to the disclosures throughout the consolidated financial statements.

The Board of Directors of the Group has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group limits the credit risk on bank balances by ensuring that these are maintained with banks having high credit ratings.

b) Credit risk

Credit risk is the risk that counter-party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group is exposed to credit risk primarily on investments, cash and cash equivalents, bank deposits and trade receivables.

The credit risk on receivables is sought to be minimised by evaluation of the creditworthiness of customers prior to advancing credit limits. Appropriate procedures for follow-up and recovery are in place to monitor credit risk. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. This allowance relates to individually significant exposures. Management believes there is no further credit risk provision required in excess of the normal impairment on receivables (refer to note 5). The maximum credit risk exposure on receivables is the carrying amount, which is net of specific impairment allowances.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2016	2015
Held-to-maturity investments	2,006,841	500,574
Cash and cash equivalents	5,278,878	3,178,464
Bank deposits	2,814,282	4,902,964
Trade receivables	3,373,128	2,466,570
Due from contractor customers	889,797	1,564,627
Other assets	211,417	284,770
	14,574,343	12,177,969

22 *FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)*

b) Credit risk (continued)

All services are provided to largely locally based customers.

2016	**Gross**	**Impairment**	**Carrying amount**
Neither past due nor impaired	2,689,933	-	2,689,933
Past due but not impaired	683,195	-	683,195
Past due and impaired	96,808	(96,808)	-
	3,469,936	**(96,808)**	**3,373,128**

2015	Gross	Impairment	Carrying amount
Neither past due nor impaired	1,574,699	-	1,574,699
Past due but not impaired	891,871	-	891,871
Past due and impaired	49,053	(49,053)	-
	2,515,623	(49,053)	2,466,570

c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages its liquidity risk, by ensuring that banks and other facilities are adequate to meet its working capital requirements.

The following are the contractual maturities of financial liabilities:

2016	**Less than 6 months**	**Total contractual cash flows**	**Carrying amount**
Bank overdraft	467,122	467,122	457,067
Payable to contractor	444,425	444,425	444,425
Trade payables	780,805	780,805	780,805
Other payables	1,005,092	1,005,092	1,005,092
	2,697,444	**2,697,444**	**2,687,389**

2015	Less than 6 months	Total contractual cash flows	Carrying amount
Bank overdraft	234,717	234,717	229,664
Payable to contractor	444,425	444,425	444,425
Trade payables	900,275	900,275	900,275
Other payables	938,832	938,832	938,832
	2,518,249	2,518,249	2,513,196

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

d) Market risk

Market risk is the risk that changes in market factors, such as currency rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk
Interest rate risk is the risk that the Group's earnings will be affected as a result of fluctuations in the value of financial instruments due to changes in market interest rates. The Group's interest rate risk is limited to its interest bearing bank deposits and debt securities.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2016	2015
Fixed rate instruments		
Government debt securities	**2,006,841**	500,574
Variable rate instruments		
Cash and cash equivalents	**5,278,878**	3,178,464
Bank deposits	**2,814,282**	4,902,964
Bank overdraft	**457,067**	229,664

As at reporting date, government debt securities had average interest rate of 5 % (2015: 5 %), whereas average interest rate on bank deposits was 2.02 % (2015: 1.93 %).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by BD 74,880 in both ways (2015: BD 78,148). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

(ii) Other market price risk
Market price risk arises from available-for-sale investments held by the Group. All of the Group's quoted investments are listed on the Bahrain Bourse. A 2% increase / decrease in Bahrain Bourse prices at the reporting date would have increased / decreased equity by BD 63,797 (2015: an increase / decrease of BD 64,535).

(iii) Currency risk
Currency risk is the risk that the Group's earnings will be affected as a result of fluctuations in currency exchange rates. The Group is exposed to currency risk on liabilities for purchases denominated in foreign currencies. The majority of the foreign currency payments are in US dollars. As the US dollar is pegged against the Bahraini Dinar, the Group perceives the currency risk to be low.

e) Capital management

The Group's objectives for managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

22 *FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)*

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares. There were no significant changes in the Group's approach to capital management during the year. Neither the Group nor its subsidiary is subject to externally imposed capital requirements.

The Board's policy is to maintain a strong capital base so as to maintain investor, lender and Government confidence. The Board of Directors monitors that there is sufficient capital to ensure smooth working of the current operations. The Group defines capital as total shareholder's equity.

23 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date 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 recognised 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.

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

Bahraini Dinars

23 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

(i) The classification of financial instruments is as follows:

31 December 2016	**Loans and receivables**	**Available-for-sale**	**Held-to-Maturity**	**Others at amotised cost**	**Total carrying Amount**
Trade receivables	3,373,128	-	-	-	3,373,128
Due from contract customers	889,797	-	-	-	889,797
Cash and cash equivalents	5,290,376	-	-	-	5,290,376
Bank deposits	2,814,282	-	-	-	2,814,282
Investments	-	3,189,861	2,006,841	-	5,196,702
Other assets	211,417	-	-	-	211,417
	12,579,000	**3,189,861**	**2,006,841**	**-**	**17,775,702**
Bank overdraft	-	-	-	457,067	457,067
Payable to contractor	-	-	-	444,425	444,425
Trade payables	-	-	-	780,805	780,805
Other payables	-	-	-	1,005,092	1,005,092
	-	**-**	**-**	**2,687,389**	**2,687,389**

31 December 2015	Loans and receivables	Available-for-sale	Held-to-Maturity	Other at amortised cost	Total carrying Amount
Trade receivables	2,466,570	-	-	-	2,466,570
Due from contract customers	1,564,627	-	-	-	1,564,627
Cash and cash equivalents	3,191,264	-	-	-	3,191,264
Bank deposits	4,902,964	-	-	-	4,902,964
Investments	-	3,226,735	500,574	-	3,727,309
Other assets	284,770	-	-	-	284,770
	12,410,195	3,226,735	500,574	-	16,137,504
Bank overdraft	-	-	-	229,664	229,664
Payable to contractor	-	-	-	444,425	444,425
Trade payables	-	-	-	900,275	900,275
Other payables	-	-	-	938,832	938,832
	-	-	-	2,513,196	2,513,196

23 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

(ii) Fair value hierarchy

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

Valuation techniques based on observable inputs, 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; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3

Valuation techniques using significant unobservable inputs. This category includes all instruments where 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 where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

a) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale investments	**3,189,861**	**-**	**-**	**3,189,861**

2015	Level 1			Total
Available-for-sale investments	3,226,735	-	-	3,226,735

b) Financial instruments not measured at fair value

The table below sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Held-to-maturity investments	-	2,006,841	-	2,006,841
	-	**2,006,841**	**-**	**2,006,841**

At 31 December 2015	Level 1	Level 2	Level 3	Total
Held-to-maturity investments	-	500,574	-	500,574
	-	500,574	-	500,574

23 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

c) *Other financial assets and liabilities*

The carrying amount of the Company's other financial assets and liabilities approximate their fair values due to their short term nature.

24 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party, directly or indirectly through one or more intermediaries, has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include major shareholders, directors and key management personnel of the Group and entities that are related to these parties.

The related party balances included in these consolidated financial statements are as follows:

a) Related party balances	**2016**	2015
Amount due from Kanoo shipping - *entity under common control*	-	149,302
Amount due to Yusuf Bin Ahmed Kanoo WLL- *shareholder*	12,460	26,910

b) Transactions with related parties

	2016	2015
Revenues		
Ship repairing services - *entity under common control*	**346,111**	158,879
Expenses		
Purchase of air tickets and services - *entity under common control*	**109,248**	89,328

c) Balances and transactions with key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. Directors' shareholding pattern has been disclosed under Note 16. Compensation for key management personnel is as follows:

	2016	2015
Advance given against salary	**18,000**	-

	2016	2015
Directors' remuneration	105,059	105,059
Directors' sitting fee	26,941	26,941
Salaries and other short term benefits	123,637	122,413
Post employment benefits	7,700	7,700
	263,337	262,113

25 COMMITMENT AND CONTINGENT LIABILITIES

	2016	2015
Letter of guarantees	10,000	10,000

The Group entered into a contract for power supply upgrade for the Group's premises and ERP system. The contract costs are BD 612,409 and BD 222,116, respectively. Total cost incurred by the Group for power supply upgrade and ERP system till 31 December 2016 is BD 572,052 (31 December 2015: BD 570,247) and BD 222,116 (31 December 2015: 178,406) respectively. These commitments are expected to be settled in 2017.

26 COMPARATIVES

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