Seef Properties B.S.C.

CHAIRMAN'S REPORT, INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

Esteemed Seef Properties B.S.C. Shareholders,

On behalf of the Board of Directors of Seef Properties B.S.C. (“**Company**”), it is with great pleasure that I present to you the Company’s audited Financial Statements for the year ended 31 December 2019, which includes the Company’s performance during the previous year and our vision for the future.

The continued profitability of the Company despite the challenges of a highly competitive market is a testament to the soundness of the strategies and plans we have implemented towards achieving new horizons and cementing our leading position in the real estate, retail, hospitality and entertainment sectors.

Key Indicators

The Company maintained its profitability in 2019, and this is an indication of the Company’s resilience and ability to adapt its operations swiftly to the fluctuations of the market despite the challenges of and changing dynamics of consumer behaviours. For the financial year ended 31 December 2019, the Company reported a net profit of BD 10.93 million, in comparison to BD 10.91 million for the same period of the previous year, achieving an increase of 0.11%. Accordingly, the Board of Directors is recommending to the General Assembly cash dividends of 15%, an equivalent of BD 6.9 million.

Our focus in 2019 has been centered around providing exceptional experiences to our customers. Our efforts to provide high quality lifestyle choices have reflected and transpired positively by strengthening our financial performance and achieving profit for the Company. We will continue to take steady strides towards achieving more growth in the upcoming years in accordance with well-defined priorities and objectives stemming from our strong belief in the importance of planning and careful research of realisable gains, to ensure that the Company achieves further success.

Key Financial Results (In million Bahraini Dinars)	2018	2019
Total comprehensive income	11.12	11.19
Operational Profit	14.85	15.13
Net Profit	10.91	10.93
Total Assets	168.37	174.32
Total equity attributable to the shareholders	150.83	154.54

Creating a New Lifestyle

In 2020, the features of our strategy will become clearer, which will be based on diversifying our investment portfolio and expanding our operations in new sectors, namely the entertainment and real estate development sectors. Simultaneously, we are fortifying our efforts to provide exceptional shopping experiences to our customers in all of our commercial malls, as we aim to provide additional value to our partners in return of their investments and to secure their success as a priority.

We are currently on the precipice of a new era for the Company with the expected launch of Liwan Project, through which we seek to create a modern lifestyle in the Kingdom of Bahrain, as well as introduce new experiences in the entertainment sector. This comes as part of our efforts to enhance our investment revenues and to increase the profit of the Company, in addition to working collectively with the Government to promote the Kingdom’s leading position as a tourism hub in the region. While we continue developing high quality projects, we will focus our efforts towards building for the future and maintaining our leading position.

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Seef Properties believes that the entertainment sector is critical and will accordingly continue to invest in the same through its subsidiary, Seef Entertainment. We aim to launch exceptional projects that meet the aspirations of the citizens, residents and visitors of the Kingdom of Bahrain.

Integrating Innovation in the Retail Sector

In the midst of the high competition in the retail sector, we are keen on reinforcing our leadership position by relying on unique foundations we have established over the years, and which have earned us the trust of our valued customers and partners. Consequently, this integration of innovation in the retail sector has reflected positively on our occupancy rates in all of our commercial malls, where we have ensured that every client's shopping experience is exceptional. Furthermore, modern trends in e-commerce have necessitated our reconsideration of the retail industry and the need not only to construct new commercial outlets, but to ensure sustainability of their management in light of the changing market conditions.

Unlimited Ambition

Our Company is prepared for the future due to the measures and strategies put in motion to enhance its profitability by focusing on investing in vital sectors and transitioning into modern avenues of business. We are proactive in our initiatives and we rely on our ambitions to achieve a better tomorrow. Our team of professionals places us in a position that enables us to create a brighter future for retail, entertainment, hospitality and real estate development in the Kingdom.

As demonstrated by its consistent profitability, Seef Properties has succeeded in turning its plans to enhance its positive financial performance into reality. We have solid foundations to progress and increase our growth rates, and with your support, we are confident that we will achieve all of our goals.

In conclusion, on behalf of my esteemed fellow Directors, all the employees and shareholders of the Company, I would like to extend my sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister, His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, the respected Government of the Kingdom of Bahrain and all its ministries, institutions and officials who continue to provide support to Seef Properties throughout the years. Their support has put us in a prominent position to support the aspirations of our wise leadership and enabled us to strengthen the Kingdom's status as regional and global destination for tourism, retail, entertainment, hospitality and real estate development.

I would like to also extend my sincere gratitude to all of the shareholders, partners and employees for the successes that we have achieved. Our aim will remain to retain your confidence and to achieve more growth and prosperity in the year 2020.

ESSA MOHAMED NAJIBI
Chairman

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SEEF PROPERTIES B.S.C.

Report on Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Seef Properties B.S.C. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of comprehensive income, cash flows, changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2019, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, 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 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SEEF PROPERTIES B.S.C. (continued)

Report on Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

1. Valuation of investment properties Refer to note 7 to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in the audit**
Investment properties comprise 79% of the Group's total assets as at 31 December 2019. The Group's investment properties consist of malls, serviced apartments property and commercial properties located within the Kingdom of Bahrain. These investment properties are measured at fair value determined by independent, external, specialist valuators. The valuation of the investment properties is highly dependent on estimates and assumptions, such as rental yields, property location, occupancy rates, discount rates, maintenance status, and market knowledge. Because of the complexity of fair value requirements, significance of judgements and estimates applied and the Group's exposure to investment properties forming a major portion of the Group's assets, the audit of fair value measurement for investment properties is a key area of focus.	Our procedures in relation to the fair value assessment of investment properties included, among others: • Evaluation of the independent external valuators' objectivity, independence and relevant expertise; and • Assessment of the methodology, key assumptions and methods used by the valuators in the valuation process. We also evaluated the appropriateness of the disclosures relating to the assumptions and sensitivity of such assumptions in note 7 to the consolidated financial statements.

Other information included in the Group's 2019 annual report

Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Chairman and the Board of Directors is responsible for the other information. Prior to the date of this auditor's 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 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 when it becomes available 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SEEF PROPERTIES B.S.C. (continued)

Report on Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2019 annual report (continued)
If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of 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 IFRSs, 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.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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Report on Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

We report that:

a) as required by the Bahrain Commercial Companies Law, we report that:
   i. the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
   ii. the financial information contained in the Chairman's Report is consistent with the consolidated financial statements; and
   iii. satisfactory explanations and information have been provided to us by Management in response to all our requests.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SEEF PROPERTIES B.S.C. (continued)

Report on Other Legal and Regulatory Requirements (continued)

b) We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

c) As required by the Ministry of Industry, Commerce and Tourism in their letter dated 30 January 2020 in respect of Article (8) of Section (2) of Chapter (1) of the Bahrain Corporate Governance Code, we report that the Company:
   i. has appointed a Corporate Governance Officer; and
   ii. has a board approved written guidance and procedures for corporate governance.

The partner in charge of the audit resulting in this independent auditor's report is Mr. Kazim Merchant.

Ernst + Young

Auditor's Registration No. 244
16 February 2020
Manama, Kingdom of Bahrain

Seef Properties B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 BD	2018 BD
ASSETS			
Non-current assets			
Property, equipment and furniture	4	**1,333,302**	22,476,918
Capital work-in-progress	6	**652,230**	352,689
Investment properties	7	**137,846,854**	115,672,719
Investment in an associate and a joint venture	8	**18,861,526**	18,922,919
Right-of-use assets	9	**2,110,311**	-
		160,804,223	157,425,245
Current assets			
Trade and other receivables	10	**3,167,796**	2,530,945
Bank balances and cash	11	**10,350,468**	8,412,894
		13,518,264	10,943,839
TOTAL ASSETS		**174,322,487**	168,369,084
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**46,000,000**	46,000,000
Statutory reserve	13	**22,510,000**	21,410,000
Furniture and fixtures replacement reserve	14	**246,521**	303,730
Retained earnings		**85,785,439**	83,112,587
Equity attributable to equity holders of the parent		**154,541,960**	150,826,317
Non-controlling interest		**3,821,242**	3,732,440
Total equity		**158,363,202**	154,558,757
Non-current liabilities			
Term loan - non-current portion	17	**5,995,175**	4,595,256
Lease liability - non-current portion	18	**2,505,718**	-
Employees' end of service benefits	19	**262,043**	293,353
		8,762,936	4,888,609
Current liabilities			
Unclaimed dividends	20	**3,591,979**	3,157,755
Trade and other payables	21	**2,964,884**	3,027,990
Term loan - current portion	17	**612,869**	2,735,973
Lease liability - current portion	18	**26,617**	-
		7,196,349	8,921,718
Total liabilities		**15,959,285**	13,810,327
TOTAL EQUITY AND LIABILITIES		**174,322,487**	168,369,084

Essa Mohamed Najibi
Chairman

Dr Mustafa Al-Sayed
Vice Chairman

Ahmed Yusuf
Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

Seef Properties B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 BD	2018 BD
INCOME			
Property rental income and service charges		13,262,738	13,575,555
Income from serviced apartments		2,038,507	2,012,203
Leisure and recreational income		1,731,589	1,804,357
		17,032,834	17,392,115
Less: cost of sales	22	3,135,012	4,011,287
GROSS PROFIT		13,897,822	13,380,828
Other operating income	23	1,092,181	1,242,360
Profit on term deposits		135,852	226,278
OPERATING PROFIT		15,125,855	14,849,466
EXPENSES			
General and administrative expenses	24	3,478,635	3,531,247
Depreciation	5	716,085	630,933
Other expenses	25	425,000	445,000
Expected credit losses	10	44,083	146,773
Finance costs	16	651,039	435,736
		5,314,842	5,189,689
PROFIT BEFORE FAIR VALUE GAINS ON INVESTMENT PROPERTIES AND SHARE OF PROFIT FROM INVESTMENT IN AN ASSOCIATE AND A JOINT VENTURE		9,811,013	9,659,777
Unrealised fair value gain on investment properties	7	1,175,687	1,333,210
Share of profit from investments in an associate and a joint venture	8	203,607	123,168
NET PROFIT FOR THE YEAR		11,190,307	11,116,155
Other comprehensive income		-	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		11,190,307	11,116,155
Attributable to:			
Equity holders of the parent		10,925,958	10,913,963
Non-controlling interest		264,349	202,192
		11,190,307	11,116,155
Basic and diluted earnings per share attributable to equity holders of the parent (fils)	26	23.75	23.73

Essa Mohamed Najibi
Chairman

Dr Mustafa Al-Sayed
Vice Chairman

Ahmed Yusuf
Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 BD	2018 BD
OPERATING ACTIVITIES			
Profit for the year		**11,190,307**	11,116,155
Adjustments for:			
Depreciation	4	**850,502**	1,453,772
Loss on disposal of property, equipment and furniture		**2,560**	7,064
Profit on term deposits		**(135,852)**	(226,278)
Finance costs	16	**651,039**	435,736
Other expense	25	**425,000**	445,000
Expected credit losses	10	**44,083**	146,773
Provision for employees' end of service benefits	19	**47,712**	67,772
Unrealised fair value gain on investment properties	7	**(1,175,687)**	(1,333,210)
Share of profit from investments in an associate and a joint venture	8	**(203,607)**	(123,168)
Other adjustments		**265,000**	-
Operating profit before working capital changes		**11,961,057**	11,989,616
Working capital changes:			
Trade and other receivables		**(672,983)**	(1,140,586)
Trade and other payables		**(69,185)**	(346,901)
		11,218,889	10,502,129
Direct utilisation of furniture and fixtures replacement reserve		**(23,816)**	(4,119)
Employees' end of service benefits paid	19	**(79,022)**	(87,332)
Other expenses paid		**(418,921)**	(455,318)
Net cash flows from operating activities		**10,697,130**	9,955,360
INVESTING ACTIVITIES			
Purchase of property, equipment and furniture	4	**(390,435)**	(63,753)
Capital work-in-progress	6	**(299,541)**	(1,201,753)
Additions to investment properties	7	**(317,460)**	(20,590)
Additional investment in an associate / joint venture	8	**-**	(9,997,016)
Net movement in term deposits		**(2,252,389)**	5,128,795
Profit on term deposits received		**127,901**	204,500
Net cash flows used in investing activities		**(3,131,924)**	(5,949,817)
FINANCING ACTIVITIES			
Dividends paid	20	**(6,558,176)**	(6,600,368)
Movement in bank balances representing unclaimed dividends		**(72,217)**	6,062,943
Term loan paid	17	**(723,185)**	(1,311,775)
Finance costs paid		**(598,660)**	(435,736)
Net cash flows used in financing activities		**(7,952,238)**	(2,284,936)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(387,032)**	1,720,607
Cash and cash equivalents at 1 January		**7,095,880**	5,375,273
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	**6,708,848**	7,095,880

Non-cash items:

1) Movement in donations and charitable contributions of BD 6,079 (2018: BD 10,318) has been excluded from trade and other payables.
2) Movement in profit on term deposits of BD 7,951 (2018: BD 21,778) has been excluded from trade and other receivables.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Equity attributable to equity holders of the parent					
	Notes	*Share capital BD*	*Statutory reserve BD*	*Furniture and fixtures replacement reserve BD*	*Retained earnings* BD*	*Non-controlling interest BD*	*Total BD*
Balance at 1 January 2019		46,000,000	21,410,000	303,730	83,112,587	3,732,440	154,558,757
Impact of adoption of IFRS 16	2	-	-	-	(286,499)	(83,147)	(369,646)
Balance as at 1 January 2019 (restated)		46,000,000	21,410,000	303,730	82,826,088	3,649,293	154,189,111
Total comprehensive income		-	-	-	10,925,958	264,349	11,190,307
Dividends declared for 2018	15	-	-	-	(6,900,000)	(92,400)	(6,992,400)
Transfer to statutory reserve	13	-	1,100,000	-	(1,100,000)	-	-
Transfer to furniture and fixtures replacement reserve	14	-	-	61,155	(61,155)	-	-
Furniture and fixtures replacement reserve utilised		-	-	(94,548)	94,548	-	-
Direct utilisation of furniture and fixtures replacement reserve		-	-	(23,816)	-	-	(23,816)
Balance at 31 December 2019		**46,000,000**	**22,510,000**	**246,521**	**85,785,439**	**3,821,242**	**158,363,202**

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Equity attributable to equity holders of the parent					
	Notes	*Share capital BD*	*Statutory reserve BD*	*Furniture and fixtures replacement reserve BD*	*Retained earnings* BD*	*Non-controlling interest BD*	*Total BD*
Balance as at 1 January 2018		46,000,000	20,310,000	268,709	77,785,688	3,530,248	147,894,645
Total comprehensive income		-	-	-	10,913,963	202,192	11,116,155
Dividends declared for 2017	15	-	-	-	(6,900,000)	-	(6,900,000)
Reversal of unclaimed dividend	20	-	-	-	2,452,076	-	2,452,076
Transfer to statutory reserve	13	-	1,100,000	-	(1,100,000)	-	-
Transfer to furniture and fixtures replacement reserve	14	-	-	60,366	(60,366)	-	-
Furniture and fixtures replacement reserve utilised		-	-	(21,226)	21,226	-	-
Direct utilisation of furniture and fixtures replacement reserve		-	-	(4,119)	-	-	(4,119)
Balance at 31 December 2018		46,000,000	21,410,000	303,730	83,112,587	3,732,440	154,558,757

* Retained earnings include BD 595,969 (2018: BD 422,251) relating to the statutory reserve of the subsidiaries.

The attached notes 1 to 31 form part of these consolidated financial statements.

1 ACTIVITIES

Seef Properties B.S.C. ("the Company") is a public joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under commercial registration (CR) number 44344. The postal address of the Company's registered head office is at P O Box 20084, Building 2102, Road 2825, Block 428, Seef District, Kingdom of Bahrain.

The Company and its subsidiaries are collectively referred to as the (the "Group").

The Group is primarily engaged in the real estate business and also provides leisure and recreational game facilities. The Group owns and manages Seef Mall, Isa Town Mall, Muharraq Seef Mall, Fraser Suites - Seef, Seef Entertainment and other commercial facilities in the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 16 February 2020.

The Company's subsidiaries, associate and joint venture, all of which are incorporated in the Kingdom of Bahrain, are as follows:

Name	*Percentage of holding*		*Principal activities*
	2019	*2018*	
Subsidiaries			
Fraser Suites Seef - Bahrain S.P.C.	**100%**	100%	Hotel, tourist furnished flats and restaurants for tourist services management.
Seef Entertainment S.P.C.	**100%**	100%	Management of amusement parks and theme parks and other amusement and recreation activities.
The Muharraq Mall Co. W.L.L.	**72.5%**	72.5%	Management of real estate including malls.
Associate			
Binaa Al Bahrain B.S.C. (c)	**25%**	25%	Real estate business.
Joint Venture			
Lama Real Estate W.L.L.	**50%**	50%	Real estate business.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse.

2.2 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties that have been measured at fair value. The consolidated financial statements are presented in Bahraini Dinars (BD) which is the functional currency of the Company and reporting currency of the Group.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

2.4 New and amended standards and interpretations effective as of 1 January 2019

The accounting policies adopted are consistent with those of the previous financial year, except for the IASB's following new and amended standards and interpretations which are effective as of 1 January 2019. The effects of the adoption of these standards and interpretations on the Group's consolidated financial statements.

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and amended standards and interpretations effective as of 1 January 2019 (continued)

IFRS 16 Leases
IFRS 16 supersedes 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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the Group measures the right-of-use assets at 1 January 2019 at an amount which is equal to the lease liability subject to certain amendments. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

a) Nature of the effect of adoption of IFRS 16
Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased asset was not capitalised and the lease payments were recognised as rent expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under trade and other receivables and trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applies a single recognition and measurement approach for all leases in which it is the lessee, except for leases of low-value assets and short term leases. The Group recognises lease liabilities to make lease payments and right-of-use asset representing the right to use the underlying assets.

b) Transition impact
The Group applied the modified retrospective approach to adopt the new standard and did not restate the comparative figures for the year prior to adoption whereby the difference between the right-of-use assets (ROU) (depreciated from commencement date till transition) and the lease liability was reflected in opening retained earnings as at 1 January 2019. The Group applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

Right of use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses)

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and amended standards and interpretations effective as of 1 January 2019 (continued)

IFRS 16 Leases (continued)

b) Transition impact (continued)

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2019:

	BD
Asset	
Right-of-use assets	**2,153,074**
Liability	
Lease liability	**2,522,720**
Net impact on equity	**(369,646)**

The adoption of IFRS 16 had the following impact on the Group's consolidated statement of comprehensive income for the year ended 31 December 2019:

	BD
Depreciation of right-of-use assets	**(75,355)**
Finance costs	**(241,724)**
	(317,079)

The Group also reclassified buildings constructed on leased land with a fair value of BD 20,681,827 to investment property as of 1 January 2019.

c) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use asset

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

Lease liabilities

At the date of initial application, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments comprise fixed payments (including in-substance fixed payments).

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the date of initial application. After the date of initial application, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and amended standards and interpretations effective as of 1 January 2019 (continued)

IFRS 16 Leases (continued)
c) Summary of new accounting policies (continued)
Leases of low-value assets
The Group applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

The following other amendments and interpretation apply for the first time in 2019, but do not have a material impact on the consolidated financial statements of the Group.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement; and
- Amendments to IAS 28: Long-term interests in associates and joint ventures.

Annual Improvements 2015-2017 Cycle

- IFRS 3 Business Combinations;
- IFRS 11 Joint Arrangements;
- IAS 12 Income Taxes; and
- IAS 23 Borrowing Costs.

2.5 Significant accounting policies

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquire at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39, is remeasured at each reporting date, at fair value with the changes in fair value recognised in the consolidated statement of comprehensive income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of comprehensive income as "gain on bargain purchase".

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

Business combinations (continued)

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on a current/non-current classification.

An asset is presented as current when it is:

- Expected to be realised or intended to be sold or consumed in a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is presented as current when:

- It is expected to be settled in a normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Investment in associates and joint ventures

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

Investment in associates and joint ventures (continued)

The Group's investment in associate and joint venture is accounted for using the equity method.

Under the equity method, the investment in joint venture or associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is not tested for impairment individually.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate and joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate and joint venture.

The aggregate of the Group's share of profit or loss of an associate or a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit.

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and joint venture and its carrying value, then recognises the loss as 'Share of loss of an associate and joint venture' in the consolidated statement of comprehensive income.

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

Property, equipment and furniture

Property, equipment and furniture are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, equipment and furniture. When significant parts of property, equipment and furniture are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, equipment and furniture as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment	2-10 years
Furniture and fixtures	3-10 years
Motor vehicles	4 years

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

Property, equipment and furniture (continued)

An item of property, equipment and furniture and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year and adjusted prospectively, if appropriate.

The capitalisation threshold for an individual item of property, equipment and furniture is BD 250, below which the cost is recognised as an expense.

Capital work-in-progress

Expenditure incurred on the construction of new facilities prior to the commencement of their commercial use is capitalised as capital work-in-progress. Capital work-in-progress is transferred either to property, equipment and furniture or investment properties at the time of commencement of commercial use.

Capital work-in-progress is not depreciated until it is transferred and put to commercial use, and is reviewed annually for any indication on impairment.

Investment properties

Investment properties comprise completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a finance lease is classified as an investment property when the definition of an investment property is met.

Investment properties are measured initially at cost, including transaction costs. Transaction costs include professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the period in which they arise. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to (or from) investment properties only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, equipment and furniture up to the date of change in use.

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions — Note 3
- Property, equipment and furniture — Note 4

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities

The specific accounting policies relating to various financial assets and financial liabilities are set out below:

i) Financial assets

The Group's financial assets include cash and short-term deposits and trade and other receivables.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

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

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

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

Financial assets at amortized cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

All the financial assets currently held by the Group are classified at amortized cost.

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

Trade receivables

Trade and other receivables are recognised at the contractually agreed rates less any discounts or adjustments. Where the time value of money is material, receivables are discounted and 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.

Bank balances and cash

Cash and balances in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with maturity of one year or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits with original maturity of three months or less, net of outstanding bank overdrafts and restricted bank accounts, if any.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

i) Financial assets (continued)

Derecognition

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  (a) the Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments of 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Fair value measurement

The Group measures non-financial assets such as investment properties at fair value at each reporting date. Fair value related disclosures are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions	Notes 3, 7
- Investment properties	Note 7
- Quantitative disclosures of fair value measurement hierarchy	Note 31

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The principal or the most advantageous market must be accessible by the Group.

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

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

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by management. The selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an annual basis, the management present the valuation results to the audit committee. This includes a discussion of the major assumptions used in the valuations.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' end of service benefits
The Group makes contributions to the Social Insurance Organisation scheme for its national employees calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group also provides for end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salaries and length of service. The expected costs of these benefits are accrued over the period of employment.

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 duty, if any. The Group has concluded that it is acting as the principal in all of its revenue arrangements as it has pricing latitude and is also exposed to credit risk. The specific recognition criteria described below must also be met before revenue is recognised.

Rental income
Rental income receivable from operating leases, less the Group's initial direct costs of entering into the leases, is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a 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, it is reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the consolidated statement of comprehensive income when they arise.

Service charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue, as it is considered that the Group acts as principal in this respect.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

Interest income is recorded using the effective interest rate (EIR) method, which is based on the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented as profit on term deposits in the consolidated statement of comprehensive income.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties include:

- Capital management — Note 30
- Financial risk management and policies — Note 30
- Sensitivity disclosures — Note 30

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements below.

Going concern

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions

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

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of comprehensive income. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2019 for investment properties. For investment properties, a valuation methodology based on income yield capitalisation model was used, as there is a lack of comparable market data because of the nature of the properties.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. Future revenue streams comprise contracted rent (passing rent) and estimated rental income (ERV) after the contract period. In estimating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in note 7.

Useful lives of property, equipment and furniture

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

Impairment of trade receivables

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

At the reporting date, gross trade receivables amounted to BD 3,321,881 (2018: BD 3,152,455) and provision for expected credit losses is BD 1,157,755 (2018: BD 1,175,980). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

4 PROPERTY, EQUIPMENT AND FURNITURE

2019	*Building on leasehold land BD*	*Equipment BD*	*Furniture and fixtures BD*	*Motor vehicles BD*	*Total BD*
Cost:					
At 1 January 2019	21,992,938	5,679,089	4,884,114	136,363	32,692,504
Additions	-	367,713	6,365	16,357	390,435
Transfers to investment properties	(21,992,938)	-	-	-	(21,992,938)
Disposals	-	(98,900)	(1,415)	-	(100,315)
At 31 December 2019	-	5,947,902	4,889,064	152,720	10,989,686
Accumulated depreciation:					
At 1 January 2019	1,311,949	4,929,284	3,858,185	116,168	10,215,586
Depreciation charge for the year	-	431,172	405,631	13,699	850,502
Relating to disposals / transfers	(1,311,949)	(96,523)	(1,232)	-	(1,409,704)
Adjustments	-	(745)	745	-	-
At 31 December 2019	-	5,263,188	4,263,329	129,867	9,656,384
Net carrying values:					
At 31 December 2019	**-**	**684,714**	**625,735**	**22,853**	**1,333,302**

4 PROPERTY, EQUIPMENT AND FURNITURE (continued)

2018	*Building on leasehold land* BD	*Equipment* BD	*Furniture and fixtures* BD	*Motor vehicles* BD	*Total* BD
Cost:					
At 1 January 2018	21,967,761	5,613,684	4,748,782	144,826	32,475,053
Additions	25,177	10,401	10,825	17,350	63,753
Transfers from capital work-in-progress	-	298,547	142,308	-	440,855
Disposals	-	(243,543)	(17,801)	(25,813)	(287,157)
At 31 December 2018	21,992,938	5,679,089	4,884,114	136,363	32,692,504
Accumulated depreciation:					
At 1 January 2018	728,406	4,743,435	3,437,622	132,444	9,041,907
Depreciation charge for the year	583,543	425,148	435,544	9,537	1,453,772
Relating to disposals	-	(239,299)	(14,981)	(25,813)	(280,093)
At 31 December 2018	1,311,949	4,929,284	3,858,185	116,168	10,215,586
Net carrying values:					
At 31 December 2018	20,680,989	749,805	1,025,929	20,195	22,476,918

4 PROPERTY, EQUIPMENT AND FURNITURE (continued)

Depreciation charges have been allocated in the consolidated statement of comprehensive income as follows:

	2019 *BD*	*2018* *BD*
Cost of sales (note 22)	**209,772**	822,839
Expenses	**640,730**	630,933
	850,502	1,453,772

5 DEPRECIATION

Depreciation of non-current assets have been allocated as follows:

	2019 *BD*	*2018* *BD*
Depreciation of property, equipment and furniture (note 4)	**640,730**	630,933
Depreciation of right-of-use assets (note 9)	**75,355**	-
	716,085	630,933

6 CAPITAL WORK-IN-PROGRESS

	2019 *BD*	*2018* *BD*
At 1 January	**352,689**	615,987
Capital expenditure incurred during the year	**299,541**	1,201,753
Transfers to property, equipment and furniture (note 4)	**-**	(440,855)
Transfers to investment properties (note 7)	**-**	(1,024,196)
At 31 December	**652,230**	352,689

7 INVESTMENT PROPERTIES

	2019 *BD*	*2018* *BD*
At 1 January	**115,672,719**	113,294,723
Transfers from property, equipment and furniture (note 4)	**20,680,989**	-
Unrealised fair value gain	**1,175,687**	1,333,210
Transfers from capital work-in-progress (note 6)	**-**	1,024,196
Expenditure incurred during the year	**317,459**	20,590
At 31 December	**137,846,854**	115,672,719

The Group's investment properties consist of Seef Mall, Isa Town Mall, Fraser Suites - Seef, Muharraq Seef Mall and other commercial properties in the Kingdom of Bahrain.

7 INVESTMENT PROPERTIES (continued)

At 31 December 2019 and 31 December 2018, the fair values of the properties are based on valuations performed by independent surveyors. The surveyors are industry specialists in valuing these types of investment properties. The valuations undertaken are based on the income yield capitalisation method or discounted cash flow method.

Fair value hierarchy disclosures for investment properties are provided in note 31.

A description of valuation techniques used and key inputs to the valuation of investment properties are as follows:

Properties	*Significant unobservable inputs*	*(weighted average)*	
		2019	*2018*
Mall Properties	Estimated rental value per annum	**BD 12,029,361**	BD 9,491,678
	Occupancy rate	**90% - 93%**	76% - 92%
	Equivalent yield	**8% to 9.5%**	9% to 9.5%
Fraser Suites - Seef	Estimated rental value per annum	**BD 1,971,000**	BD 1,892,160
	Occupancy rate	**80%**	75%
	Discount rate	**10.00%**	10.00%
Other commercial properties	Estimated rental value per annum	**BD 1,359,840**	BD 1,410,856
	Occupancy rate	**100%**	100%
	Equivalent yield	**6.0% - 9.0%**	3.0% - 10.0%

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses, as applicable. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Significant increases (decreases) in estimated rental value, rent growth per annum and long-term occupancy rates in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value of the properties.

Generally, a change in the assumption made for the estimated rental value is accompanied by:

- A directionally similar change in the rent growth per annum and discount rate (and exit yield); and
- An opposite change in the long term occupancy rate.

8 INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

	2019	*2018*
	BD	*BD*
At 1 January	**18,922,919**	8,802,735
Additional investment during the year	**-**	9,997,016
Share of profit during the year	**203,607**	123,168
Other adjustments	**(265,000)**	-
At 31 December	**18,861,526**	18,922,919

8 INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE (continued)

The summarised financial information of the joint venture, based on audited financial statements and reconciliation with the carrying amounts of the investment in the consolidated financial statements are set out below:

Joint venture's summarised statement of financial position:	*2019 BD*	*2018 BD*
Current assets	**2,709,782**	8,113,845
Non-current assets	**18,751,602**	9,922,145
Current liabilities	**(3,875,502)**	(420,641)
Equity	**17,585,882**	17,615,349

Joint venture's summarised statement of profit or loss:	*2019 BD*	*2018 BD*
Revenue	**32,070**	145,418
Expenses	**(61,536)**	(10,537)
(Loss) / profit for the year	**(29,466)**	134,881
Group's share of (loss) / profit for the year	**(14,733)**	67,441

Summarised financial information of the associate, based on audited financial statements and reconciliation with the carrying amounts of the investment in the consolidated financial statements are set out below:

Associate's summarised statement of financial position:	*2019 BD*	*2018 BD*
Current assets	**20,402,701**	19,958,990
Non-current assets	**30,886,701**	30,451,401
Current liabilities	**(21,610)**	(15,957)
Equity	**51,267,792**	50,394,434

Associate's summarised statement of profit or loss:	*2019 BD*	*2018 BD*
Revenue	**892,268**	241,146
Expenses	**(18,910)**	(18,240)
Profit for the year	**873,358**	222,906
Group's share of profit for the year	**218,340**	55,727

The joint venture and associate had no material contingent liabilities at 31 December 2019 and 31 December 2018. The joint ventures cannot distribute their profits until it obtains the consent from both venture partners. The Group's share of joint venture's capital commitments at reporting date is disclosed in note 27.

9 RIGHT-OF-USE ASSETS

The movements in the carrying value of right-of-use assets during the year, is as follows:

	Land *BD*	*Compactors* *BD*	*Motor vehicles* *BD*	*Total* *BD*
As at 1 January 2019	**2,150,771**	**-**	**2,303**	**2,153,074**
Additions during the year	**-**	**32,592**	**-**	**32,592**
Depreciation for the year	**(61,159)**	**(12,222)**	**(1,974)**	**(75,355)**
As at 31 December 2019	**2,089,612**	**20,370**	**329**	**2,110,311**

10 TRADE AND OTHER RECEIVABLES

	2019 *BD*	*2018* *BD*
Rents and service charges receivable	**3,321,881**	3,152,455
Less: provision for expected credit losses	**(1,157,755)**	(1,175,980)
	2,164,126	1,976,475
Due from related parties (note 29)	**579,172**	186,681
Other receivables [net of provision of BD 25,228 (2017: BD 131,700)]	**108,574**	46,692
Prepayments	**128,200**	154,650
Advances to suppliers	**187,724**	166,447
	3,167,796	2,530,945

Rents and service charges receivable are non-interest bearing and are generally paid on 30 to 60 days credit terms.

For terms and conditions relating to related party receivables, refer to note 29.

The movement in the provision for expected credit losses is as follows:

	2019 *BD*	*2018* *BD*
At 1 January	**1,307,680**	1,311,551
Charge for the year	**44,083**	146,773
Written off during the year	**(219,236)**	(150,644)
At 31 December	**1,132,527**	1,307,680

10 TRADE AND OTHER RECEIVABLES (continued)

The Group applies the simplified approach prescribed by IFRS 9 to provide for ECL on trade receivables. The loss allowance provision as at 31 December 2019 and 31 December 2018 incorporates certain forward looking factors and is determined as follows:

		Past due but not impaired				
	Total BD	*0-30 days BD*	*31-60 days BD*	*61-90 days BD*	*91 to 120 days BD*	*over 120 days BD*
Gross carrying amounts 2019	**3,321,881**	**847,593**	**346,796**	**38,745**	**255,731**	**1,833,016**
Loss allowance	(1,157,755)	(295,406)	(120,867)	(13,504)	(89,128)	(638,850)
Gross carrying amounts 2018	3,152,455	733,605	342,760	58,713	209,601	1,807,776

11 BANK BALANCES AND CASH

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at the reporting date.

	2019 BD	*2018 BD*
Cash on hand, bank balances and term deposits	**10,350,468**	8,412,894
Less: Term deposits with original maturity of more than three months	**(2,800,000)**	(547,611)
Bank balances representing unclaimed dividends (note 15)	**(841,620)**	(769,403)
	6,708,848	7,095,880

Bank balances are held in commercial banks in the Kingdom of Bahrain and are non-interest bearing. Term deposits are placed for varying periods ranging between one month to one year. The profit rates on term deposits at 31 December 2019 range between 3.5% to 3.6% (2018: 3.5% to 4%).

12 SHARE CAPITAL

	2019 BD	*2018 BD*
Authorised:		
1,000,000,000 shares of BD 0.100 each	**100,000,000**	100,000,000
Issued, subscribed and fully paid-up:		
460,000,000 shares (2018: 460,000,000 shares) of BD 0.100 each	**46,000,000**	46,000,000

13 STATUTORY RESERVE

The Bahrain Commercial Companies Law and the Company's articles of association require 10% of the profit for the year to be transferred to a statutory reserve. The Company may resolve to discontinue such annual transfers 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. During the year, BD 1,100,000 (2018: BD 1,100,000) of the profit for the year was transferred to the statutory reserve.

14 FURNITURE AND FIXTURES REPLACEMENT RESERVE

In accordance with the management agreement entered into between the Company and Fraser Serviced Residences Pte Ltd., a company incorporated in Singapore and involved in the operation of hotels, apartments and tourist restaurants, an amount equivalent to 1% of the total revenue for the first year, 2% of the total revenue for the second year and 3% of the total revenue for the third year and thereafter of Fraser Suites Seef - Bahrain S.P.C. ("Fraser Suites Seef"), is to be set aside as furniture and fixtures replacement reserve which is to be utilised for the purchase and replacement of Fraser Suites Seef's furniture and fixtures.

15 DIVIDENDS DECLARED

At the Annual General Meeting held on 31 March 2019, the Company's shareholders approved to pay a final dividend of BD 0.015 per share totalling BD 6,900,000. Dividends paid amounting to BD 6,465,776 relate to 2018 and before.

At the Annual General Meeting held on 25 March 2018, the Company's shareholders approved to pay a final dividend of BD 0.015 per share totalling BD 6,900,000. Dividends paid amounting to BD 6,600,368 relate to 2017 and before.

16 FINANCE COSTS

Finance costs comprise of:

	2019	*2018*
	BD	*BD*
Finance costs on term loan	**409,315**	435,736
Finance costs on lease liability	**241,724**	-
	651,039	435,736

17 TERM LOAN

This represents a term loan facility obtained by the Group's subsidiary Muharraq Mall Co. W.L.L. (MMC) from a commercial bank in the Kingdom of Bahrain to finance the development of Muharraq Seef Mall. During January 2019, the loan was restructured, and under the new terms of the restructure, carries an interest rate of 2.95% plus 3 months LIBOR and is repayable on 40 quarterly instalments commencing from January 2019 until December 2028. The effective interest rate on the loan at 31 December 2019 was 5.98% (2018: 5.65%).

The loan is secured against the joint and several guarantees issued by all the shareholders of MMC in favour of the bank. There have been no breaches of the financial covenants of term loan during the current and previous year.

17 TERM LOAN (continued)

Movement in the term loan is as follows:

	2019 *BD*	*2018* *BD*
At 1 January	**7,331,229**	8,643,004
Finance costs for the year	**409,315**	435,736
Repayments during the year	**(1,132,500)**	(1,747,511)
At 31 December	**6,608,044**	7,331,229

The current and non-current portions of the term loan are as follows:

	2019 *BD*	*2018* *BD*
Current	**612,869**	2,735,973
Non-current	**5,995,175**	4,595,256
	6,608,044	7,331,229

18 LEASE LIABILITY

The lease liability balance represents the present value of future lease payments for a leasehold land, leased motor vehicles and leased compactors which end in February 2054, February 2020 and March 2021 respectively.

The payments for the leasehold land are discounted using a discount factor of 9.66% per annum representing the rate of a commercial loan at 6% with 1.5% increment over the years. The payments for the leased motor vehicles are discounted at 3.2% per annum. The payments for the leased compactors are discounted at 3.2% per annum.

The movement of the lease liability is as follows:

	Leasehold land *BD*	*Leasehold compactors* *BD*	*Leasehold motor vehicles* *BD*	*Total* *BD*
Balance at 1 January 2019	**2,520,312**	**-**	**2,408**	**2,522,720**
Additions during the year	**-**	**32,592**	**-**	**32,592**
Lease payments during the year	**(250,000)**	**(12,600)**	**(2,100)**	**(264,700)**
Finance costs during the year	**241,060**	**621**	**43**	**241,724**
Balance at 31 December 2019	**2,511,372**	**20,613**	**351**	**2,532,336**

18 LEASE LIABILITY (continued)

The current and non-current portions of the lease liability are as follows:

	Leasehold land BD	*Leasehold compactors BD*	*Leasehold motor vehicles BD*	*Total BD*
Current	**9,842**	**16,424**	**351**	**26,617**
Non-current	**2,501,530**	**4,189**	**-**	**2,505,719**
	2,511,372	**20,613**	**351**	**2,532,336**

19 EMPLOYEES' END OF SERVICE BENEFITS

The contributions made by the Group towards the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain for the year ended 31 December 2019 amounted to BD 165,905 (2018: BD 122,225).

The movement in the end of service benefits applicable to expatriate employees is as follows:

	2019 BD	*2018 BD*
At 1 January	**293,353**	312,913
Charge for the year	**47,712**	67,772
Paid during the year	**(79,022)**	(87,332)
At 31 December	**262,043**	293,353

Charges for the year have been allocated in the consolidated statement of comprehensive income as follows:

	2019 BD	*2018 BD*
Staff costs (note 24.1)	**36,166**	41,078
Cost of sales	**11,546**	26,694
	47,712	67,772

20 UNCLAIMED DIVIDENDS

	2019 BD	*2018 BD*
At 1 January	**3,157,755**	5,310,199
Dividends declared (note 15)	**6,900,000**	6,900,000
Dividends relating to non-controlling interest of a subsidiary	**92,400**	-
Dividends paid (note 15)	**(6,558,176)**	(6,600,368)
Reversal	**-**	(2,452,076)
At 31 December	**3,591,979**	3,157,755

20 UNCLAIMED DIVIDENDS (continued)

During 2018, the Group, based on a legal opinion and resolution of the shareholders dated 28 February 2006 and 1 March 2007, reversed, through the retained earnings, dividends relating to 2005 and 2006 in respect of a shareholder.

21 TRADE AND OTHER PAYABLES

	2019 *BD*	*2018* *BD*
Accrued expenses	**1,153,419**	1,024,374
Deposit payable	**572,938**	482,299
Deferred income	**508,441**	658,877
Other payables	**400,133**	448,510
Trade payables	**223,056**	177,991
Donations and charitable contributions payables	**86,319**	80,240
Retentions payable	**20,577**	155,699
	2,964,883	3,027,990

Terms and conditions of the financial liabilities included in the above table are as follows:

- Trade and other payables are non-interest bearing and are normally settled on 60-day terms.
- Retentions payable are non-interest bearing and have an average term of six months to one year from the date of rendering the contractual services.

22 COST OF SALES

	2019 *BD*	*2018* *BD*
Utilities	**923,503**	954,098
Cleaning	**608,526**	599,411
Maintenance	**545,317**	459,222
Staff costs	**512,589**	543,768
Depreciation (note 4)	**209,772**	822,839
Room related expenses	**67,234**	76,956
Insurance	**64,559**	88,001
Food and beverage costs	**49,468**	64,845
Direct costs incurred on leisure and recreational facilities	**35,680**	33,882
Property tax	**31,260**	31,260
Rent expense	-	250,000
Miscellaneous	**87,104**	87,005
	3,135,012	4,011,287

23 OTHER OPERATING INCOME

	2019 *BD*	*2018* *BD*
Kiosk, antenna, ATM and GSM income	**739,403**	732,916
Advertising and promotional income	**95,240**	130,906
Car park income	**46,887**	48,807
Miscellaneous income	**210,651**	329,731
	1,092,181	1,242,360

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 *BD*	*2018* *BD*
Staff costs (note 24.1)	**1,773,350**	1,925,240
Marketing and advertisement expenses	**635,091**	646,468
Security and other labour expenses	**322,227**	304,998
Legal and professional fees	**292,374**	174,907
Office expenses	**125,187**	149,600
Incentive fees	**73,348**	60,223
Maintenance expenses	**67,268**	83,185
Management fees	**61,849**	50,305
Board sitting fees	**24,100**	33,400
Travelling and transportation expenses	**1,843**	9,794
Miscellaneous	**101,998**	93,127
	3,478,635	3,531,247

24.1 Staff costs

Basic salaries	**1,108,547**	1,260,650
Allowances	**219,243**	230,700
Bonuses	**140,783**	156,791
Social insurance	**124,181**	119,863
Medical insurance	**82,195**	78,989
Others	**62,235**	37,169
End of service benefits (note 19)	**36,166**	41,078
	1,773,350	1,925,240

25 OTHER EXPENSES

	2019 *BD*	*2018* *BD*
Directors' remuneration (note 29)	**245,000**	265,000
Donations and charitable contributions	**180,000**	180,000
	425,000	445,000

26 EARNINGS PER SHARE

	2019	*2018*
Profit for the year attributable to equity holders of the Company (BD)	**10,925,958**	10,913,963
Weighted average number of shares outstanding	**460,000,000**	460,000,000
Basic and diluted earnings per share (fils)	**23.75**	23.73

No separate figure for diluted earnings per share has been presented as the Group has not issued any financial instruments which may have a dilutive effect.

27 COMMITMENTS AND CONTINGENCIES

a) Capital commitments

The Group has capital expenditure and investment commitments outstanding at the reporting date but not yet provided for in respect of the following:

	2019 BD	*2018 BD*
Lama Real Estate W.L.L.	**23,861,717**	27,885,600
Binaa Al Bahrain	**4,968,577**	4,968,577
Seef Mall, Isa Town Mall and Magic Island renovation works	**747,341**	337,875
Muharraq Seef Mall	**13,351**	2,351
	29,590,986	33,194,403

b) Other commitments

MMC is expected to pay a royalty charge of 2.75% (2018: 2.75%) of its gross rental income receivable to the lessor commencing from the year 2022 until the end of the lease term in 2053.

c) Legal cases

In the ordinary course of business, the Group is subject to legal claims. The Group has provided for certain claims relating to employees. In respect of other cases, management believe that those cases would be decided in favour of the Group and hence no cash outflow is expected from such cases.

d) Guarantees

The Company, along with the other shareholders, have jointly signed several corporate guarantees towards term loan obtained by MMC from a commercial bank.

28 SEGMENT INFORMATION

For management purposes, the Group is organised into four main business segments:

Malls and properties	-	Management of real estate including malls
Serviced apartments	-	Management of apartments
Leisure and entertainment	-	Operating leisure and recreational games facilities
Other	-	All activities other than property management and leisure activities

28 SEGMENT INFORMATION (continued)

The operations of malls and properties include the management of Seef Mall, Isa Town Mall, Muharraq Seef Mall and other properties in Hamad Town, Isa Town, Saar and Um-Al Hassam.

Serviced apartments represent Fraser Suites Seef - Bahrain, which generates income from the leasing of furnished serviced apartments and tourist restaurants.

The Group owns and operates leisure and recreational games facilities in different commercial malls in the Kingdom of Bahrain under its brand name, Magic Island.

The Group also earns income from lease of promotional space, car park areas in addition to other miscellaneous income.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (finance revenue) is managed on a group basis and is not allocated to operating segments.

Transfer prices between operating segments are approved by management.

Segment assets include all operating assets used by a segment and consist primarily of property, equipment and furniture, investment properties and accounts receivable.

Segment liabilities include all operating liabilities and consist primarily of employees' end of service benefits, unclaimed dividends and trade and other payables.

28 SEGMENT INFORMATION (continued)

	Malls and properties		Serviced apartments		Leisure and entertainment		Others		Elimination		Consolidated	
	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD
Income from external operations	13,262,738	13,575,555	2,038,507	2,012,203	1,731,589	1,804,357	-	-	-	-	17,032,834	17,392,115
Inter-segment income	270,882	260,160	-	-	-	-	-	-	(270,882)	(260,160)	-	-
Less: cost of sales	1,855,452	2,627,671	598,927	683,506	951,515	960,270	-	-	(270,882)	(260,160)	3,135,012	4,011,287
Gross profit	11,678,168	11,208,044	1,439,580	1,328,697	780,074	844,087	-	-	-	-	13,897,822	13,380,828
Other operating income	-	-	-	-	27,315	15,676	1,064,866	1,226,684	-	-	1,092,181	1,242,360
Profit on term deposits	-	-	-	-	9,544	-	126,308	226,278	-	-	135,852	226,278
Operating profit	11,678,168	11,208,044	1,439,580	1,328,697	816,933	859,763	1,191,174	1,452,962	-	-	15,125,855	14,849,466
Expenses												
General and administrative expenses	2,796,244	2,801,895	566,666	606,746	115,725	122,606	-	-	-	-	3,478,635	3,531,247
Depreciation	313,821	221,345	70,597	75,017	331,667	334,571	-	-	-	-	716,085	630,933
Other expenses	425,000	445,000	-	-	-	-	-	-	-	-	425,000	445,000
Expected credit losses	44,083	146,773	-	-	-	-	-	-	-	-	44,083	146,773
Finance costs	651,039	435,736	-	-	-	-	-	-	-	-	651,039	435,736
	4,230,187	4,050,749	637,263	681,763	447,392	457,177	-	-	-	-	5,314,842	5,189,689
Profit from operations	7,447,981	7,157,295	802,317	646,934	369,541	402,586	1,191,174	1,452,962	-	-	9,811,013	9,659,777
Unrealised fair value gain (loss) on investment properties	1,175,687	1,878,975	-	(545,765)	-	-	-	-	-	-	1,175,687	1,333,210
Share of profit from investments in an associate and a joint venture	203,607	123,168	-	-	-	-	-	-	-	-	203,607	123,168
Segment profit for the year	8,827,275	9,159,438	802,317	101,169	369,541	402,586	1,191,174	1,452,962	-	-	11,190,307	11,116,155
	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD	2019 BD	2018 BD
Total assets	159,964,564	158,314,949	12,152,146	12,410,254	2,205,777	1,751,023	-	-	-	(4,107,142)	174,322,487	168,369,084
Total liabilities	11,933,445	13,520,714	3,905,911	4,396,755	119,929	34,717	-	-	-	(4,107,142)	15,959,285	13,810,327
Capital expenditure	672,482	1,162,108	125,484	84,343	209,469	39,645	-	-	-	-	1,007,435	1,286,096

Capital expenditure consists of additions of property, equipment and furniture, capital work-in-progress and investment properties.
All of the sales and profit of the Group are earned in the Kingdom of Bahrain from the above business segments.

29 RELATED PARTY TRANSACTIONS

Related parties represent 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 Board of Directors.

Transactions with related parties during the year are as follows:

	2019		*2018*	
	Cost of sales BD	***Other operating income BD***	*Cost of sales BD*	*Other operating income BD*
Muharraq Mall Co. W.L.L.	**65,160**	**72,815**	65,160	157,871

The Company has an existing property services agreement with MMC, to provide property development and management, lease management, tenant coordination, management set-up and mall marketing management. The fees for these services were included in other operating income in the consolidated statement of comprehensive income.

Balances with related parties included in the consolidated statement of financial position (note 10) are as follows:

	Receivables	
	2019 BD	*2018 BD*
Lama Real Estate W.L.L.	**579,172**	186,681

Compensation of key management personnel
The remuneration of directors and members of key management during the year were as follows:

	2019 BD	*2018 BD*
Directors' remuneration	**245,000**	265,000
Management short-term benefits	**137,650**	174,560
Management end of service benefits	**4,800**	5,075
Board sitting fees	**24,100**	33,400
	411,550	478,035

Outstanding balances at 31 December arise in the normal course of business and are interest free and unsecured. The Group only creates an impairment provision for related party balances where it is virtually certain the debt will not be recovered. For the years ended 31 December 2019 and 31 December 2018, the Group has not recorded any impairment of amounts owed by related parties.

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Introduction (continued)

Board of Directors

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

Executive committee

The executive committee is responsible for evaluating and approving business and risk strategies, plans and policies of the Company and Group.

Real estate risk

The Group has identified the following risks associated with the real estate portfolio:

A major tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associated property (also see credit risk below). To reduce this risk, the Group reviews the financial status of all prospective and existing tenants and decides on the appropriate level of security required via rental deposits or guarantees.

Interest rate risk

The Group is not exposed to interest rate risk on its interest bearing bank deposits as these deposits are placed with reputable banks at pre-determined fixed interest rates.

Currency risk

Currency risk is the risk that the fair value of 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 majority of the Group's transactions in foreign currency are in US Dollars. As the Bahraini Dinar is pegged to the US Dollar, balances in US Dollars are not considered to represent a significant currency risk.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its leasing activities and its financing activities, including deposits with banks and financial institutions.

Credit risk related to rent receivables

Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement. Outstanding tenants' receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Credit risk from balances with banks and financial institutions 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 subject to approval of the Audit Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

Concentration of credit risk

The Group provides its services to a large number of individuals and companies. Its five largest customers account for 25% of outstanding trade receivables at 31 December 2019 (2018: 19%).

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group limits its liquidity risk by ensuring that sufficient funds are available. The Group's terms of lease require tenants to pay rentals in advance. Trade and other payables are normally on 30 to 60 days settlement terms.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

2019	*On demand BD*	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 5 years BD*	*Total BD*
Unclaimed dividends	**3,591,979**	**-**	**-**	**-**	**3,591,979**
Trade and other payables	**250,960**	**233,806**	**695,464**	**122,793**	**1,303,023**
Term loan	**149,917**	**462,952**	**2,962,513**	**3,032,662**	**6,608,044**
	3,992,856	**696,758**	**3,657,977**	**3,155,455**	**11,503,046**

2018	*On demand BD*	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 5 years BD*	*Total BD*
Unclaimed dividends	3,157,755	-	-	-	3,157,755
Trade and other payables	222,236	331,925	708,787	81,791	1,344,739
Term loan	-	1,011,935	1,724,038	4,595,256	7,331,229
	3,379,991	1,343,860	2,432,825	4,677,047	11,833,723

Capital management

The primary objective of the Group's capital management process is to ensure that the Group maintains a strong liquidity and healthy capital ratios 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 economic conditions. No changes were made in the objectives, policies or processes during the current and previous years ended 31 December 2019 and 31 December 2018. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. For the purpose of the Group's capital management, equity includes share capital, statutory reserve, furniture and fixtures replacement reserve, retained earnings and equity attributable to non-controlling interest and is measured at 31 December 2019 at BD 158,363,202 (2018: BD 154,558,757).

31 FAIR VALUE MEASUREMENT

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of trade and other receivables and cash and bank balances. Financial liabilities consist of certain items of trade and other payables, unclaimed dividends payable and term loan which are carried at amortised cost.

The carrying amounts of the Group's financial instruments such as cash and bank balances, trade and other receivables, trade and other payables, unclaimed dividends payable, are a reasonable approximation of their fair values. Thus, a fair value disclosure is not required for such financial instruments.

31 FAIR VALUE MEASUREMENT (continued)

The following table provides the fair value measurement hierarchy of the Group's assets measured at fair value at 31 December:

		Fair value measurement using			
31 December 2019	***Date of valuation***	***Quoted prices prices in active markets (Level 1) BD***	***Significant observable inputs (Level 2) BD***	***Significant unobservable inputs (Level 3) BD***	***Total BD***
Assets measured at fair value					
Investment properties	*31 December 2019*	-	-	**137,846,854**	**137,846,854**

		Fair value measurement using			
31 December 2018	*Date of valuation*	*Quoted prices prices in active markets (Level 1) BD*	*Significant observable inputs (Level 2) BD*	*Significant unobservable inputs (Level 3) BD*	*Total BD*
Assets measured at fair value					
Investment properties	*31 December 2018*	-	-	115,672,719	115,672,719

There have been no transfers between Level 1, level 2 and Level 3 during the year.

Movement in the carrying value of investment properties is disclosed in note 7.

Changes in estimated rental value and yields in isolation would result in a higher or lower fair value of the investment properties. The effect of a reasonably possible 1% change in annual net rental income would result in a change in fair value of investment properties is BD 1,299,422 (2018: BD 1,081,945). Similarly, the effect of a reasonably possible change in the yield of 0.25% could impact the fair value of the investment properties by BD 3,634,545 (2018: 2,901,454).