



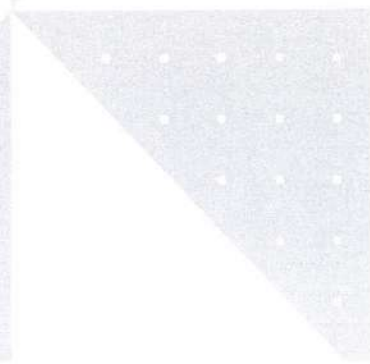
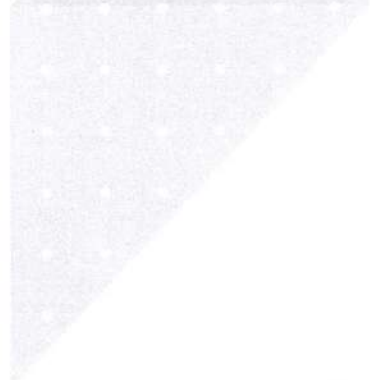
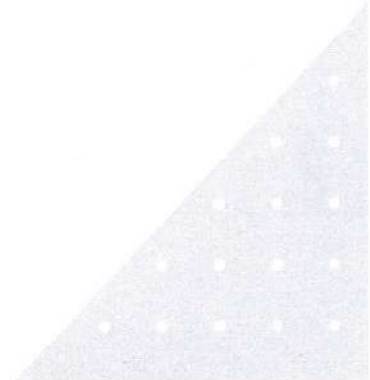
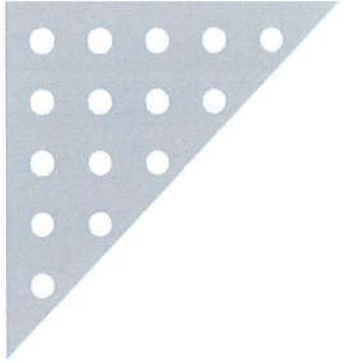
Annual Report
2020

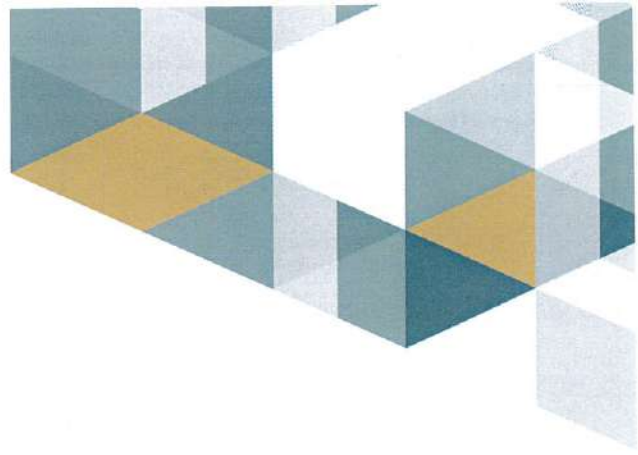


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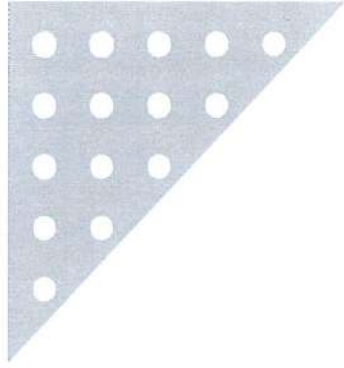


His Highness
Shaikh Salman bin Hamad Al-Khalifa
Crown Prince - Commander in Chief of Bahrain
Defence Force

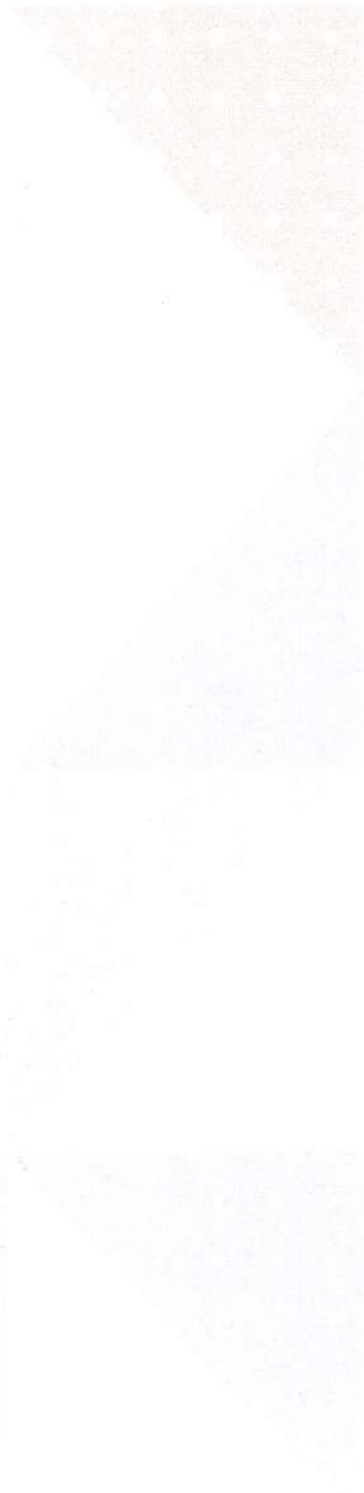


His Majesty
HM King Hamad Bin Isa Al Khalifa
King of Bahrain





Board of Directors





Mohammed Ibrahim Al Farhan
Chairman



Hamad J. Al-Sadoun
Vice Chairman



Hamad Abdulaziz Al Shaya
Board Member



Abdulghaffar Abdulrahim Al Kooheji
Board Member



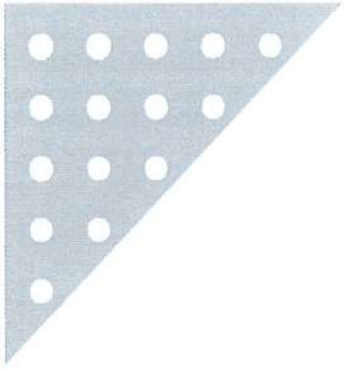
Mohammed Abdul-Hameed
Al-Marzook
Board Member



Gerard Snabian
Board Member



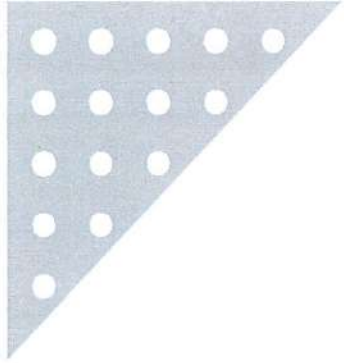
Mohammed Abdullah Alhubail
Board Member



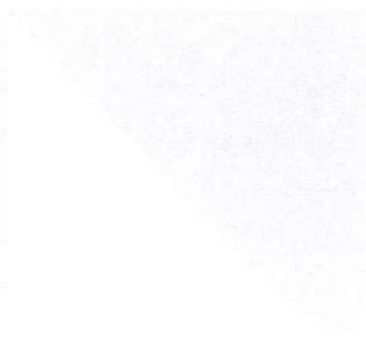
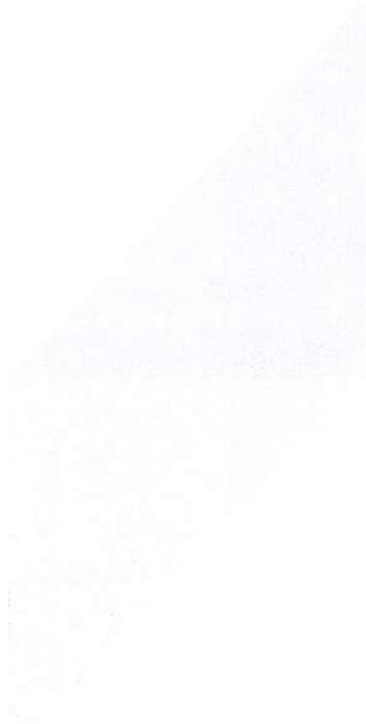
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Chairman's Message



Message on behalf of the Chairman of the Board of Directors

Honorable Shareholders of First Real Estate Company

Peace be upon you

On my behalf and on behalf of the members of the board, it is my pleasure to welcome you and share the results of First Real Estate Company for the fiscal year ended on 31 December 2020.

The world had witnessed the large economic losses, and financial Struggles due to the (Covid 19 epidemic) devastating the worlds economy during 2020. The company sought, with all its professional team to act swiftly and avoid financial losses by taking the upmost precautions, finding alternative revenue sources and developing innovative solutions to promote the value of the investments and projects adopted by the company to save the interest of the shareholders, clients, and employees.

The company completed in 2020 in cooperation with one of its strategic partners Al Dhow Real Estate Company the second tower of its most significant projects (Catamaran) and it began leasing and operating the units of the tower with the assistance of Urban Quarters W.L.L a specialized company in managing high end residential properties.

This project is renowned by its strategic location in the heart of the Seef District in Manama and was built using only the highest of standards, when it comes to design and finishing materials making it one of the most sought after residential towers in the Kingdom of Bahrain.

This project was constructed on a plot with an area of 6,530 SQM and it consists of 583 residential units, in addition to gymnasiums, multipurpose sports facilities, 4 swimming pools (indoor and outdoor), Cinemas, and various other means of leisure and entertainment, that is in addition to shops, restaurants and cafes in the ground floor.

The company continues to seek for the best investment opportunities, whether in Kingdom of Bahrain or other parts of the world diversifying income sources and contributing to maximize the profitability of the company's assets.

On the financial aspect, the assets of the company reached 80.6 million Bahraini Dinars at the end of 2020 in comparison with 80.9 million Bahraini Dinars at the end of 2019 with minor reduction reaching 0.4%.

Whereas the shareholders equity in the parent company reached 47 million Bahraini Dinars at the end of 2020 in comparison with 45.3 million Bahraini Dinars at the end of 2019, an increase of 1.7 million Bahraini Dinars, or 3.9%.

As for the financial performance, the total revenues reached 3.5 million Bahraini Dinars in 2020 in comparison with 3.8 million Bahraini Dinars in 2019 (a reduction of 8%) whereas the total expenses reached 2 million Bahraini Dinars in 2020 in comparison with 2.2 million Bahraini Dinars in 2019, with the reduction of 10% and this is mainly due to the resolution of postponing and writing off the interests of the loans issued by Government of Bahrain due to Covid-19 epidemic. The parent company registered profits amounting 1.7 million Bahraini Dinars in 2020 in comparison with losses of 1.9 million Bahraini Dinars in 2019, with an increase of 190%.

Ladies and gentlemen, First Real Estate Development Company shareholders;

Last but not least, I would like to present my sincerest appreciation and respect for your continuous support for our board and executive management and every employee at First Real Estate Co. I would like to renew my commitment to maintaining a positive performance at First Real Estate Company as well as dedicating all the necessary efforts and resources to achieve greater results for each of us in the coming years.

God bless you all.



Mohammad Ibrahim Al-Farhan
Chairman of the Board

Introduction

Introduction

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

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

Strategy

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

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

Vision

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

Mission Statement

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

Company Projects

Company's Projects

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

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

I. Income Generating Properties

Kingdom of Bahrain

JUFFAIR COMPOUND 1

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

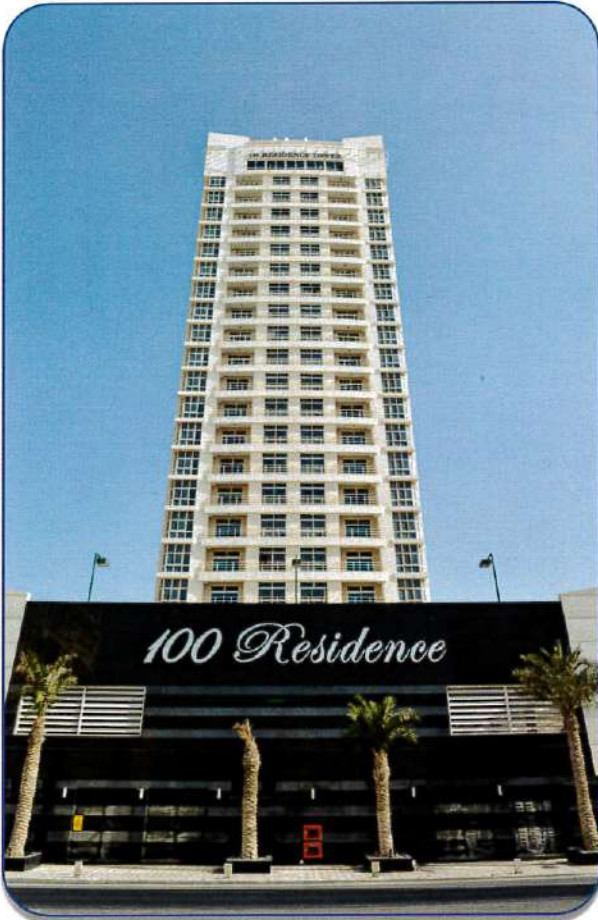


JUFFAIR COMPOUND 2

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

THE 100 RESIDENCE TOWER, JUFFAIR AREA

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



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

The Company acquired a strategically situated land for investment purposes known as G28, covering a total area of approximately 45,247 square meters at the Bahrain Investment Wharf. The Company signed a 15 year build-to-suit warehouse contract agreement with an investor for developing the land into a warehouse with a total built-up area of 31,000 square meters. The warehouse was completed and handed over to the investor in August 2009. During 2018, the company signed an extension on the lease with the current tenant, until 2030.

(G26) BAHRAIN INVESTMENT WHARF WAREHOUSES, AL HIDD AREA

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

AL YAL REAL ESTATE COMPANY - CATAMARAN TOWERS PROJECT

Al Yal Real Estate was established in equal partnership with an associate Company in the Kingdom of Bahrain, to merge and develop three pieces of land owned by the two companies at Al Seef area. The company began developing its largest project (Catamaran Residence) which consists of two residential buildings comprising 583 apartments with a commercial complex in the middle. The project also includes 3 floors that hold up to 600 parking spaces. They contain restaurants and commercial shops. Most of the units in tower one have been sold and handed over to their owners, tower two was completed in the fourth quarter of 2020.

**United Arab of Emirates****JABAL ALI LABOR ACCOMMODATION – DUBAI**

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

LABOUR ACCOMMODATION AT MUHAISNAH AREA – DUBAI

In alliance with an associate Company, the Company acquired a labour accommodation building in Muhaisnah area with a total area of 5,287 square meters. The building comprises of two floors containing a total of 401 rooms which were refurbished in 2010. The project is leased.

II. Land Trading and Development

Kingdom of Bahrain

AL SEEF LAND - AL SEEF DISTRICT

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



HIDD INDUSTRIAL LAND - HIDD AREA

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

MARSA AL SEEF - AL SEEF AREA

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

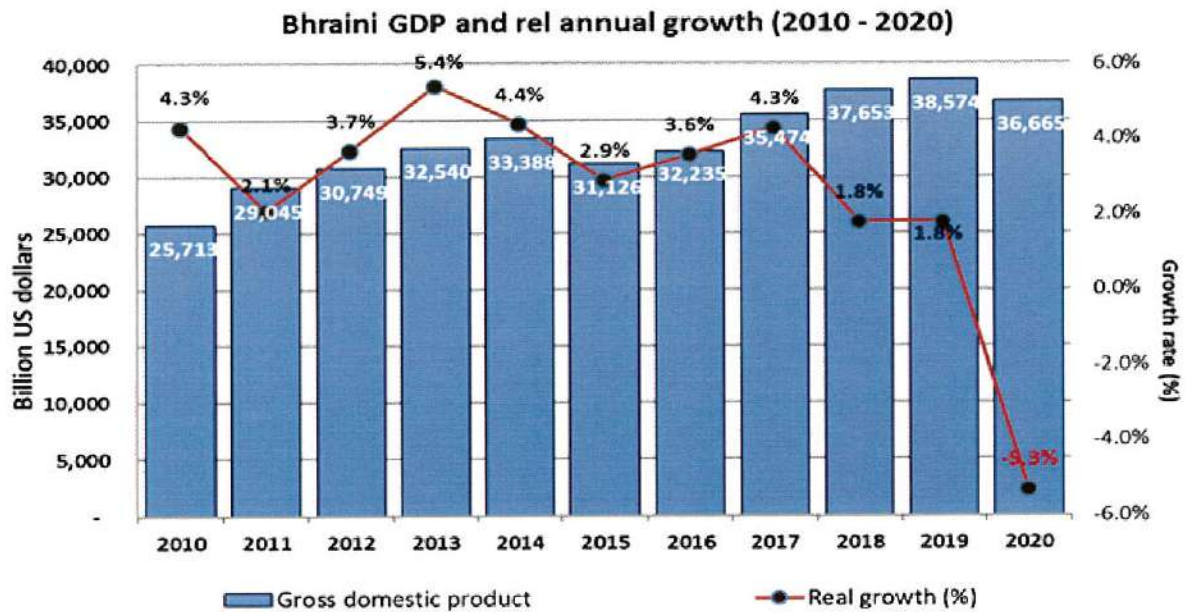
Real Estate & Economic Market Overview

First: Performance of Bahraini Economy

The Bahraini economy was subject to the double shock affecting all its peers in GCC in 2020 and its negative effects reflected on the growth of the economy and all its internal and external balances. The Economic Information Unit of Economist Magazine expects that the performance of the economy begins the gradual compensation for the effects of the crisis starting from 2021 and afterward.

Bahrain was affected by a real recession in the gross domestic products within the limits of 5.3% in 2020 in comparison with 1.8% in 2019 and growth with the same rate in the year 2018 as per the figures stated

Diagram No. (1)



by the Economic Information Unit of Economist Magazine and “Economist” expects that the Bahraini economy achieves growth in 2021 within the limits of 2.7% after which it will rise normally in 2022 to reach about 2.8% and then it will be recess to 1.5% in 2023.

The shortage level of the central government balance increased from about 4.7% of the gross domestic products in 2019 to 11.4% in 2020 as per the estimations of the Economic Information Unit of Economist Magazine and it is expected that the shortage will decrease to reach 9.6% in 2021 and the decrease will continue to reach 7.2% in 2022 and then 4.8% in 2023. The bulletin expects the continued increase of the governmental debt as percentage of the gross domestic products to be about 129.8% in 2020 and rise to 132.5% in 2021 to reach its highest level in 2022 at 135.2%.

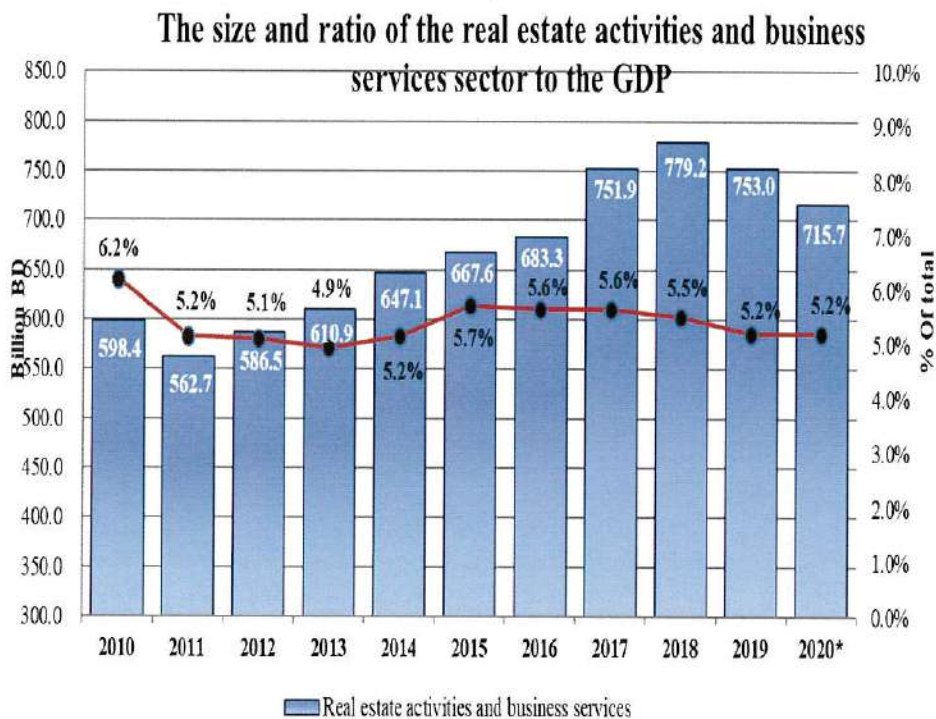
It is expected that the current account shortage will begin increasing after reaching about .794 billion USD in 2019 to become about 4.607 billion USD in 2020 and then it will gradually decrease to 3.728 billion USD in 2021 and 1.497 billion USD in 2022. It is also expected that the reserve of the foreign cash would decrease more than one-fold, i.e., to 3.401 billion USD in 2019 to about 1.530 billion USD in 2020 and it is expected to reach about 1.672 billion USD in 2022.

Due to the engagement of the exchange rate of Bahraini Dinar to USD, the ability of Bahrain to ensure the fixed exchange rate with the USD is expected to continue, and the inflation rates of the consumer rates are expected to be increased after the recession reaching about 0.5% in 2020 to increase of about 1.2% in 2021 and about 2.7% in 2022. The individual share of the gross domestic products is expected to be increased after its recession in 2022 within about 3.3% compared to the growth of about 3.8% in 2021 and the population growth rates remain at about 2.5% within the same period.

Second: Indexes of Real Estate Market Performance in Kingdom of Bahrain

The sector of real estate activities and business services recessed since 2015 as per the information available by the Information and E- Government Authority in the Kingdom of Bahrain as its contribution percentage recessed gradually in the components of the gross domestic products since 2015 from about 5.7% to about 5.2% in 2020 and its absolute value increased continually from 2011 to 2018 with the annual accumulate growth of 4.8% whereas it decreased in 2019 and 2020 with the percentage of 3.4% and 4.9% annually.

Diagram No. (2)



Source:

- Electronic Information and Government Authority
- Information of 2020 based on Electronic Information and Government Authority – Kingdom of Bahrain
- Economic Information Unit – (EIU) Economist (February 2021)

The banking credit growth rates (for the governmental and private sectors) continually increased since 2010 and they reached an annual accumulate growth of 6.3% within the period from 2010 – 2020 and the share of the construction and restoration activity reached from the total banking credit about 18.6% within 2020 in comparison with about 19.6% and 18.9% in 2018 and 2019 respectively and the accumulative growth rate for the total credit of the construction and restoration activity reached about 1.0% within the same 10 years period.

As per the information stated by Survey and Real Estate Registration Body in Kingdom of Bahrain as measured by its deliberation value, the liquidity of the real estate sector achieved about 717.4 million

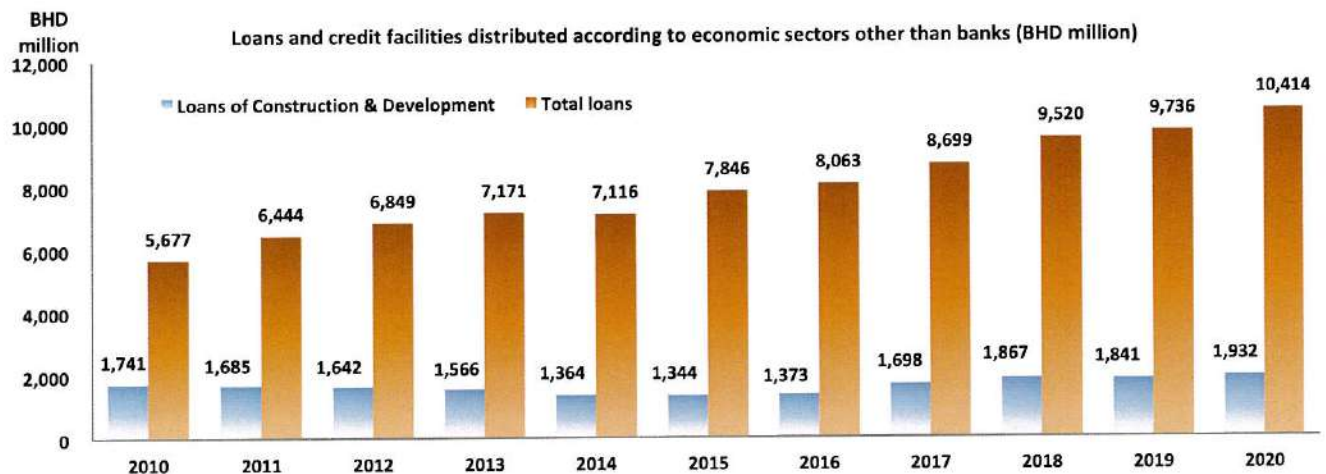
Bahraini Dinars in 2020 in comparison with 804.9 million Bahraini Dinars in 2019, i.e reduction of about 10.9% as a reduction in the consequence of (Covid -19) epidemic. In general, the liquidity of real estate market achieves a cumulative growth rate in the last ten years 2011 to 2020 about 5.2%.

Table No. (1): volume of Real Estate Deliberation (Thousands Bahraini Dinars)

| Total value of real estate transactions | 2011 | of % total | 2012 | of % total | 2013 | of % total | 2014 | of % total | 2015 | of % total | 2016 | of % total | 2017 | of % total | 2018 | of % total | 2019 | of % total | 2020 | of % total |
|-----------------------------------------|---------|------------|---------|------------|---------|------------|-----------|------------|-----------|------------|-----------|------------|---------|------------|---------|------------|---------|------------|---------|------------|
| Bahrainis | 362,967 | 79.7% | 559,730 | 84.3% | 757,745 | 87.9% | 1,118,830 | 86.6% | 1,093,441 | 90.3% | 964,712 | 92.9% | 905,363 | 91.4% | 846,671 | 88.1% | 722,264 | 89.7% | 643,753 | 89.7% |
| GCC Citizens | 60,709 | 13.3% | 48,642 | 7.3% | 53,441 | 6.2% | 108,108 | 8.4% | 72,125 | 6.0% | 36,519 | 3.5% | 33,675 | 3.4% | 74,350 | 7.7% | 44,806 | 5.6% | 39,936 | 5.6% |
| Foreigners | 31,700 | 7.0% | 55,620 | 8.4% | 50,777 | 5.9% | 65,524 | 5.1% | 44,949 | 3.7% | 37,370 | 3.6% | 51,596 | 5.2% | 40,374 | 4.2% | 37,864 | 4.7% | 33,748 | 4.7% |
| The total trading | 455,375 | 100.0% | 663,992 | 100.0% | 861,963 | 100.0% | 1,292,462 | 100.0% | 1,210,515 | 100.0% | 1,038,600 | 100% | 990,634 | 100% | 961,394 | 100% | 804,934 | 100% | 717,437 | 100% |

Source: Bahraini Central Bank

*Based on first half of 2019, calculated on an annual basis.



Source: Information of Survey and Real Estate Registration Body – Kingdom of Bahrain.

*Estimated information for categories as per the nationality in 2019 and 2020.

First Real Estate Company B.S.C. (c)
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



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

Bahraini Dinars

The Board of Directors have pleasure in submitting its report and the audited consolidated financial statements of First Real Estate Company B.S.C. (c) ('the Company') and its subsidiaries (together 'the Group') for the year ended 31 December 2020.

Principal activities and results for the year

The Group is engaged in buying, selling, managing, developing and leasing of flats, offices and houses. The Group made a net profit of BD 2,013,789 during the year ended 31 December 2020 (2019: net loss of BD 1,842,404) of which a profit of BD 1,736,948 is attributable to the equity holders of the parent (2019: loss of BD 1,937,096) and a profit of BD 276,841 is attributable to the non-controlling interests (2019: BD 94,692).

Financial highlights

| | 2020 | 2019 |
|----------------------------|-------------------|-------------|
| | BD | BD |
| Total income | 4,054,584 | 353,212 |
| Profit (loss) for the year | 2,013,789 | (1,842,404) |
| Total assets | 80,632,811 | 80,936,748 |
| Total equity | 52,859,050 | 50,800,348 |

Representations and audit

The Group's activities for the year ended 31 December 2020 have been conducted in accordance with the Bahrain Commercial Companies Law 2001 and other relevant statutes of the Kingdom of Bahrain.

There have been no events subsequent to 31 December 2020, which would in any way invalidate the consolidated financial statements.

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Company for the year ending 31 December 2021, will be submitted to the approval of the shareholders at the Annual General Meeting.

On behalf of the Board of Directors

Mohammed Ibrahim Al Farhan

Chairman

17-Mar-21



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 manama@bh.ey.com

C.R. No. 29977- 1

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of First Real Estate Company B.S.C. (c) (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of 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 2020, 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 24 February 2020.

Other information

Other information consists of the information included in the Report of the Board of Directors, set out on page 1, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

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

Responsibilities of Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 skepticism throughout the audit. We also:

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

Consolidated Statement Of Financial Position

As at 31 December 2019

Bahraini Dinars

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

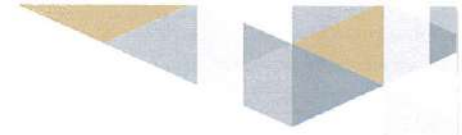
Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

- 1) As required by the Bahrain Commercial Companies Law, we report that :
 - a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;
 - b) the financial information contained in the directors' report is consistent with the consolidated financial statements;
 - c) we are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's memorandum of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Group or on its consolidated financial position; and
 - d) satisfactory explanations and information have been provided to us by management in response to all our requests.



Consolidated Statement Of Profit Or Loss

For the year ended 31 December 2019

Bahraini Dinars

Report on Other Legal and Regulatory Requirements (continued)

- 2) As required by the Ministry of Industry, Commerce and Tourism in its 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;
 - a) has appointed a Corporate Governance Officer; and
 - b) the Company has a Corporate Governance Code and procedures approved by the Board of Directors.

Ernst & Young

Auditor's Registration No. 212
17 March 2021
Manama, Kingdom of Bahrain


The notes on pages 24 to 45 are an integral part of these consolidated financial statements

Consolidated Statement Of Other Comprehensive income

For the year ended 31 December 2019

Bahraini Dinars

| | Note | 2020 BD | 2019 BD |
|-----------------------------------------------------|------|--------------------------|--------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Furniture, equipment and vehicles | 5 | 241,706 | 82,018 |
| Investment properties | 6 | 73,485,602 | 69,792,486 |
| Investment in associates | 7 | 522,908 | 589,263 |
| Investment securities | 8 | 488 | 488 |
| | | <u>74,250,704</u> | <u>70,464,255</u> |
| Current assets | | | |
| Inventory property | 9 | 969,458 | - |
| Accounts receivable and prepayments | 10 | 1,231,803 | 2,879,350 |
| Bank balances and cash | 11 | 4,180,846 | 7,593,143 |
| | | <u>6,382,107</u> | <u>10,472,493</u> |
| TOTAL ASSETS | | <u>80,632,811</u> | <u>80,936,748</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 12 | 33,390,000 | 33,390,000 |
| Share premium | 13 | 27,241 | 27,241 |
| Reserves | | 13,580,015 | 11,848,192 |
| Equity attributable to owners of the Company | | <u>46,997,256</u> | <u>45,265,433</u> |
| Non-controlling interests | 22 | <u>5,861,794</u> | <u>5,534,915</u> |
| Total equity | | <u>52,859,050</u> | <u>50,800,348</u> |
| Non-current liabilities | | | |
| Term loans | 17 | 17,389,795 | 17,806,438 |
| Employees' end of service benefits | | 76,434 | 60,874 |
| | | <u>17,466,229</u> | <u>17,867,312</u> |
| Current liabilities | | | |
| Term loans | 17 | 2,635,521 | 3,066,967 |
| Payable to a shareholder | 18 | 4,759,569 | 6,139,193 |
| Accounts payable and accruals | 19 | 2,623,502 | 2,902,593 |
| Advances from buyers | | 254,883 | 94,522 |
| Contract liabilities - advances | | 34,057 | 65,813 |
| | | <u>10,307,532</u> | <u>12,269,088</u> |
| Total liabilities | | <u>27,773,761</u> | <u>30,136,400</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>80,632,811</u> | <u>80,936,748</u> |



Mohammad Al Farhan



Hamad Jasim AlSadoun

The notes on pages 24 to 45 are an integral part of these consolidated financial statements

Statement of Changes in Equity

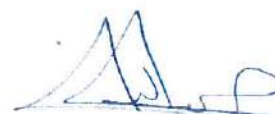
For The Year Ended 31 December 2019

Bahraini Dinars

| | Note | 2020 BD | 2019 BD |
|----------------------------------------------------|------|--------------------|--------------------|
| INCOME | | | |
| Rental revenue | | 3,483,220 | 3,504,779 |
| Valuation profit (loss) from investment properties | 6 | 235,070 | (3,262,499) |
| Management fee | | 201,915 | 45,785 |
| Gain on sale of investment properties | | 139,930 | 318,123 |
| Other income | | 55,679 | 39,137 |
| Share of results of associates | 7 | (61,230) | (292,113) |
| Total income | | 4,054,584 | 353,212 |
| EXPENSES | | | |
| Property operating expenses | | (1,095,303) | (885,311) |
| Finance costs | 21 | (280,779) | (667,701) |
| Other expenses | | (295,388) | (287,726) |
| Staff costs | | (369,325) | (354,878) |
| Total expenses | | (2,040,795) | (2,195,616) |
| PROFIT (LOSS) FOR THE YEAR | | 2,013,789 | (1,842,404) |
| Profit (loss) attributable to: | | | |
| Owners of the parent | | 1,736,948 | (1,937,096) |
| Non-controlling interests | | 276,841 | 94,692 |
| | | 2,013,789 | (1,842,404) |



Mohammad Al Farhan
Chairman



Hamad Jasim AlSadoun
Vice Chairman

The notes on pages 24 to 45 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Bahraini Dinars

(which may be reclassified to profit or loss in subsequent periods)

Foreign currency translation loss

TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR

Attributable to:

Owners of the parent

Non-controlling interests

| | | |
|--|-------------------------|---------------------------|
| | <u>(5,125)</u> | <u>(2,882)</u> |
| | <u>2,008,664</u> | <u>(1,845,286)</u> |
| | 1,731,823 | (1,939,978) |
| | 276,841 | 94,692 |
| | <u>2,008,664</u> | <u>(1,845,286)</u> |

The notes on pages 24 to 45 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Year Ended 31 December 2019

Bahraini Dinars

| | Note | 2020 BD | 2019 BD |
|---------------------------------------------------------|------|--------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Profit (loss) for the year | | 2,013,789 | (1,842,404) |
| Adjustments for: | | | |
| Depreciation furniture, equipment and vehicles | 5 | 53,741 | 4,185 |
| Changes in fair value of investment properties | 6 | (235,070) | 3,262,499 |
| Gain on sale of investment properties | | (139,930) | (318,123) |
| Share of loss of associates | 7 | 61,230 | 292,113 |
| Interest expense on term loans | 21 | 280,690 | 667,379 |
| Murabaha and wakala income | | (44,764) | (19,496) |
| Provision for employees' end of service benefits | | 18,177 | 5,201 |
| Operating profit before working capital changes | | 2,007,863 | 2,051,354 |
| Working capital changes: | | | |
| Accounts receivable and prepayments | | 1,647,547 | 610,043 |
| Payable to a shareholder | | (1,329,586) | 310,963 |
| Advances from buyers | | 160,361 | (160,743) |
| Accounts payable and accruals | | (573,808) | (1,005,342) |
| Contract liabilities - advances | | (31,756) | (125,901) |
| Net cash from operating activities | | 1,880,621 | 1,680,374 |
| Employees' end of service benefits paid | | (2,617) | (2,803) |
| Net cash flows from operating activities | | 1,878,004 | 1,677,571 |
| INVESTING ACTIVITIES | | | |
| Purchase of furniture, equipment and vehicles | 5 | (34,121) | (56,876) |
| Additions to investment properties | | (4,815,182) | (5,829,673) |
| Proceeds from sale of investment properties | | 625,210 | 2,804,825 |
| Murabaha and wakala income received | | 44,764 | 19,496 |
| Net cash flows used in investing activities | | (4,179,329) | (3,062,228) |
| FINANCING ACTIVITIES | | | |
| Term loans (repaid) availed | 22 | (848,089) | 7,502,467 |
| Finance costs paid | 22 | (262,883) | (683,212) |
| Dividends paid | | - | (1,669,500) |
| Net cash flows used in financing activities | | (1,110,972) | 5,149,755 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (3,412,297) | 3,765,098 |
| Cash and cash equivalents at 1 January | | 7,243,143 | 3,478,045 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 11 | 3,830,846 | 7,243,143 |

Non-cash item:

Borrowing costs capitalised during the year amounting to BD 276,910 (2019: BD 204,340) has been excluded from additions to investment properties (note 6).

The notes on pages 24 to 45 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For The Year Ended 31 December 2019

Bahraini Dinars

| | Equity attributable to equity holders of the parent | | | | | Equity attributable to the owners of the parent | | Non-controlling interest | Total equity |
|----------------------------------------------|-----------------------------------------------------|---------------|-------------------|------------------|--------------------------------------|-------------------------------------------------|--------------------------------|--------------------------|-------------------|
| | Share capital | Share premium | Statutory reserve | General reserve | Foreign Currency translation reserve | Retained earnings | Investments fair value reserve | BD | BD |
| | (note 12) | (note 13) | (note 14) | (note 15) | BD | (note 16) | BD | BD | BD |
| Balance at 1 January 2020 | 33,390,000 | 27,241 | 5,880,636 | 2,155,826 | (7,939) | 3,819,669 | - | 45,265,433 | 50,800,348 |
| Profit for the year | - | - | - | - | - | 1,736,948 | - | 1,736,948 | 2,013,789 |
| Other comprehensive loss for the year | - | - | - | - | (5,125) | - | - | (5,125) | (5,125) |
| Total comprehensive income loss for the year | - | - | - | - | (5,125) | 1,736,948 | - | 1,731,823 | 2,008,664 |
| Net adjustment in non-controlling interest | - | - | - | - | - | - | - | - | 50,038 |
| Transfer to statutory reserve (note 14) | - | - | 173,695 | - | - | (173,695) | - | - | - |
| Balance at 31 December 2020 | 33,390,000 | 27,241 | 6,054,331 | 2,155,826 | (13,064) | 5,382,922 | - | 46,997,256 | 52,859,050 |

| | Equity attributable to equity holders of the parent | | | | | Equity attributable to the owners of the parent | | Non-controlling interest | Total equity |
|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------|-------------------|------------------|--------------------------------------|-------------------------------------------------|--------------------------------|--------------------------|-------------------|
| | Share capital | Share premium | Statutory reserve | General reserve | Foreign Currency translation reserve | Retained earnings | Investments fair value reserve | BD | BD |
| | BD | BD | BD | BD | BD | BD | BD | BD | BD |
| Balance at 1 January 2019 | 33,390,000 | 27,241 | 5,880,636 | 2,155,826 | (5,057) | 10,602,515 | (3,176,250) | 48,874,911 | 53,995,907 |
| Loss for the year | - | - | - | - | - | (1,937,096) | - | (1,937,096) | (1,842,404) |
| Other comprehensive loss for the year | - | - | - | - | (2,882) | - | - | (2,882) | (2,882) |
| Total comprehensive income (loss) for the year | - | - | - | - | (2,882) | (1,937,096) | - | (1,939,978) | (1,845,286) |
| Net adjustment in non-controlling interest | - | - | - | - | - | - | - | - | 319,227 |
| Transfer of fair value reserve of investment securities designated at fair value through other comprehensive income | - | - | - | - | - | (3,176,250) | 3,176,250 | - | - |
| Dividends for 2018 (note 20) | - | - | - | - | - | (1,669,500) | - | (1,669,500) | (1,669,500) |
| Balance at 31 December 2019 | 33,390,000 | 27,241 | 5,880,636 | 2,155,826 | (7,939) | 3,819,669 | - | 45,265,433 | 50,800,348 |

The notes on pages 24 to 45 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

1 REPORTING ENTITY

First Real Estate Company B.S.C. (c) ("the Company") was incorporated in the Kingdom of Bahrain on 10 September 2002 and registered with the Ministry of Industry and Commerce and Tourism under commercial registration (CR) number 49288. The Company is engaged in buying, selling, managing, developing and leasing of flats, offices and houses. The Company primarily operates in the Kingdom of Bahrain. The address of the Company's registered head office is Catamaran Tower, Building 3132, Road 4553, Block 346, Seef District, Kingdom of Bahrain.

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

The Group comprises of First Real Estate Company B.S.C. (c) and the following subsidiaries incorporated in the Kingdom of Bahrain and associate companies incorporated in the United Arab Emirates as at 31 December 2020 (2019: same).

| Company name | Percentage shareholding | Year of incorporation | Activity |
|------------------------------------------|--------------------------------|------------------------------|----------------------------------|
| Subsidiaries: | | | |
| <i>Al Yal Real Estate Company W.L.L.</i> | <i>50%</i> | <i>2008</i> | <i>Real estate</i> |
| <i>Al Yal Seef Residence W.L.L.</i> | <i>50%</i> | <i>2013</i> | <i>Real estate</i> |
| <i>Urban Quarters Co. W.L.L.</i> | <i>50%</i> | <i>2017</i> | <i>Management of real estate</i> |

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

| Company name | Percentage shareholding | Year of incorporation | Activity |
|-----------------------------------------|--------------------------------|------------------------------|--------------------|
| Associates: | | | |
| <i>Al-Sanbook R.E. Co. L.L.C.</i> | <i>25%</i> | <i>2006</i> | <i>Real estate</i> |
| <i>Asdaf Real Estate Company L.L.C.</i> | <i>50%</i> | <i>2009</i> | <i>Real estate</i> |

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

COVID-19

During the year ended 31 December 2020, there was an outbreak of coronavirus (COVID-19). The existing and anticipated effects of the outbreak on the global economy is expected to continue to evolve. Authorities have taken various measures to contain the spread and announced various support measures to counter possible adverse implications. The Group has recognised the assistance provided by the Government of the Kingdom of Bahrain as a reduction to relevant expense category. The Group has been closely monitoring the latest developments in the current evolving situation. Although these developments caused disruptions in the Group's operations as of 31 December 2020, the scale and duration of these developments remain uncertain at this stage. The Group has considered the potential impacts of the current economic volatility in determining the reported amounts of the Group's financial and non – financial assets and liabilities as at 31 December 2020. However, market remains volatile and the recorded amounts remain sensitive to market fluctuations, the extent of which is presently undeterminable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPERATION

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

New and amended standards effective as of 1 January 2020

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for certain amendments to standards adopted by the Group as of 1 January 2020.

- *Amendments to IFRS 3 : Definition of a Business;*
- *Amendments to IFRS 7, IFRS 9 and IAS 39 : Interest Rate Benchmark Reform;*
- *Amendments to IAS 1 and IAS 8 : Definition of Material; and*
- *Conceptual Framework for Financial Reporting issued on 29 March 2018.*

The above standards did not have a material impact on the Group's consolidated financial statements.

Standards issued but not yet effective

Relevant new and amended standards that are issued, but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below:

- *Amendments to IAS 1 Classification of Liabilities as Current or Non-current : effective for annual periods beginning on or after 1 January 2023;*
- *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 : effective for annual periods beginning on or after 1 January 2022;*
- *Amendments to IFRS 16 Covid-19 Related Rent Concessions : Amendments to IFRS 16 COVID-19 Related Rent Concessions. The amendment applies to annual reporting periods beginning on or after 1 June 2020;*
- *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 : effective for annual periods beginning on or after 1 January 2022;*
- *Amendments to IFRS 3 : Business Combinations: The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively; and*
- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities : effective for annual periods beginning on or after 1 January 2022.*

The Group's management is currently assessing the impact of the above standards and plans to adopt those applicable to the Group on their effective dates.

Current vs 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 classified 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 classified 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

Current vs non-current classification (continued)

The Group classifies all other liabilities as non-current.

Fair value measurement

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

- a) In the principal market for the asset or liability, or
- b) 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 is 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:

- a) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities,
- b) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,
- c) 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.

Inventory property

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory property (continued)

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

Continuous transfer of work in progress is applied when;

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

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

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

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

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

Furniture, equipment and vehicles

Furniture, equipment and vehicles are stated at cost less accumulated depreciation and any impairment in value.

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

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

- | | |
|--------------------------|---------|
| - Furniture and fixtures | 6 years |
| - Equipment | 4 years |
| - Vehicles | 6 years |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture, equipment and vehicles (continued)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. An item of furniture, equipment and vehicles 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 amounts of the assets) is included in the consolidated statement of comprehensive income in the year the asset is derecognised.

Investment in associates

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.

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

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

Under the equity method, the investment in 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 associates is included in the carrying amount of the investment and is not tested for impairment individually.

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 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 associates.

The aggregate of the Group's share of profit or loss of associates are shown on the face of the consolidated statement of comprehensive income.

The financial statements of the 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 associates' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or inventory property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property or inventory property becomes an investment property, the Group accounts for such property in accordance with the policy stated under furniture, equipment and vehicles or inventory property 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.

Impairment of non-financial assets

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.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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 bank balances and cash, investment securities and accounts receivable.

Initial recognition

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.

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.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

i) Financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

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.

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

The Group's financial assets at amortised cost include a bank balances and accounts receivable.

Derecognition of financial assets

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

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

Impairment of financial assets

The Group recognises a provision for ECLs for all debt instruments not held at fair value through profit or loss. 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 tenants receivables, amounts due from related parties and receivable from buyers, 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.

Notes to the Consolidated Financial Statements

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

ii) Financial liabilities

Initial recognition and subsequent measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, term loans and payable to a shareholder, which are measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

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

Offsetting of financial instruments

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Rental revenue

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the consolidated statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income. Rental income received in advance is recognized as unearned income and released to the consolidated statement of comprehensive income over the lease period.

Management fee

Revenue from management of properties is recognised on an accrual basis.

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.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract. (i.e., transfers control of the related goods or services to the customer).

Foreign currencies

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

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.

Notes to the Consolidated Financial Statements

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4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In the process of applying the Group's accounting policies, the Board of Directors has made the following judgements, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Judgements

Going concern

As of 31 December 2020, the Group's current liabilities exceeded its current assets by BD 3,925,425 primarily because of the payable to shareholder of BD 4,759,569. Though contractually payable on demand, subsequent to the year end the shareholder has agreed not to seek payment of this balance in 2021. Further, the Board of Directors are not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Based on these, the Board of Directors concluded that is appropriate to prepare the financial statements under going concern basis.

The Group is monitoring the evolution of the COVID-19 pandemic and will continue to assess its impact going forward on the appropriateness of the going concern assumption.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

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 2020 and 31 December 2019 for investment properties. For investment properties, a valuation methodology based on income yield capitalisation model and comparable market data was used based on 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.

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Bahraini Dinars

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)*Impairment of tenant receivables and receivable from buyers*

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 tenant receivables and receivable from buyers amounted to BD 468,701 (2019: BD 794,451) and no provision for expected credit losses were recognised during the year (2019: nil). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

5 FURNITURE, EQUIPMENT AND VEHICLES

2020

| | <i>Vehicles</i> BD | <i>Furniture, fixture and equipment</i> BD | <i>Total</i> BD |
|-----------------------------|-----------------------|-------------------------------------------------------|-----------------------|
| <i>Cost:</i> | | | |
| At 1 January 2020 | 48,295 | 117,357 | 165,652 |
| Additions | - | 34,121 | 34,121 |
| Transfers (note 6) | - | 179,308 | 179,308 |
| At 31 December 2020 | <u>48,295</u> | <u>330,786</u> | <u>379,081</u> |
| <i>Depreciation:</i> | | | |
| At 1 January 2020 | 17,917 | 65,717 | 83,634 |
| Charge for the year | 9,152 | 44,589 | 53,741 |
| At 31 December 2020 | <u>27,069</u> | <u>110,306</u> | <u>137,375</u> |
| <i>Net carrying amount:</i> | | | |
| At 31 December 2020 | <u>21,226</u> | <u>220,480</u> | <u>241,706</u> |

2019

| | <i>Vehicles</i> BD | <i>Furniture, fixture and equipment</i> BD | <i>Total</i> BD |
|-----------------------------|-----------------------|-------------------------------------------------------|----------------------|
| <i>Cost:</i> | | | |
| At 1 January 2019 | 35,430 | 73,346 | 108,776 |
| Additions | 12,865 | 44,011 | 56,876 |
| At 31 December 2020 | <u>48,295</u> | <u>117,357</u> | <u>165,652</u> |
| <i>Depreciation:</i> | | | |
| At 1 January 2019 | 17,917 | 61,532 | 79,449 |
| Charge for the year | - | 4,185 | 4,185 |
| At 31 December 2020 | <u>17,917</u> | <u>65,717</u> | <u>83,634</u> |
| <i>Net carrying amount:</i> | | | |
| At 31 December 2019 | <u>30,378</u> | <u>51,640</u> | <u>82,018</u> |

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6 INVESTMENT PROPERTIES

| | <i>Land and buildings BD</i> | <i>Properties under construction BD</i> | <i>Total BD</i> |
|--------------------------------------------------------|--------------------------------------|-----------------------------------------------------|---------------------|
| As at 1 January | 54,126,396 | 15,666,090 | 69,792,486 |
| Cost recognised during the year | - | 4,815,182 | 4,815,182 |
| Borrowing costs capitalised | - | 276,910 | 276,910 |
| Completed and transferred to land and buildings | 20,758,182 | (20,758,182) | - |
| Transfer to furniture, equipment and vehicles (note 5) | (179,308) | - | (179,308) |
| Disposal of investment properties | (485,280) | - | (485,280) |
| Transfer to inventory property (note 9) | (969,458) | - | (969,458) |
| Fair value changes - net | 235,070 | - | 235,070 |
| At 31 December | 73,485,602 | - | 73,485,602 |

| | <i>Land and buildings BD</i> | <i>Properties under construction BD</i> | <i>Total BD</i> |
|-------------------------------------------------|--------------------------------------|-----------------------------------------------------|---------------------|
| As at 1 January | 57,615,530 | 11,892,144 | 69,507,674 |
| Cost recognised during the year | - | 5,829,673 | 5,829,673 |
| Borrowing costs capitalised | - | 204,340 | 204,340 |
| Completed and transferred to land and buildings | 2,260,067 | (2,260,067) | - |
| Disposal of investment properties | (2,486,702) | - | (2,486,702) |
| Fair value changes - net | (3,262,499) | - | (3,262,499) |
| | 54,126,396 | 15,666,090 | 69,792,486 |

The Group's investment properties consist of vacant plots of land, residential and commercial properties leased to third parties in the Kingdom of Bahrain and United Arab Emirates.

At 31 December 2020 and 31 December 2019, 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 and comparable approach. The fair value measurement has been categorised as Level 3 fair value based on the inputs to the valuation technique of market and cost approach and

Fair value hierarchy disclosures for investment properties are provided in note 23.

Investment properties include one parcel of land under a 50 year lease arrangement. This lease has been fully paid.

Included in investment properties are certain plots of land and properties with a carrying value of BD 55,368,499 as at 31 December 2020 (2019: BD 50,293,958) mortgaged against the Group's term loan facilities (note 17).

Notes to the Consolidated Financial Statements

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6 INVESTMENT PROPERTIES (continued)

Description of valuation techniques used and key inputs to valuation of investment properties:

| | <i>Valuation technique</i> | <i>Significant unobservable inputs</i> | <i>Range</i> | |
|---------------------------------------|----------------------------|----------------------------------------|---------------|-------------|
| | | | <i>2020</i> | <i>2019</i> |
| Residential and commercial properties | DCF method | Discount rate | 8.5% - 12.93% | - |
| | Comparable method | Rate per sqm (BD) | - | 11 - 45 |
| Land | Comparable method | Rate per sqm (BD) | 20 - 60 | 21 - 62 |

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

7 INVESTMENTS IN ASSOCIATES

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

| | <i>2020</i> <i>BD</i> | <i>2019</i> <i>BD</i> |
|--------------------------------|--------------------------|--------------------------|
| As at 1 January | 589,263 | 881,376 |
| Share of loss for the year | (61,230) | (292,113) |
| Foreign currency exchange loss | (5,125) | - |
| As at 31 December | 522,908 | 589,263 |

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

| | <i>Sanbook</i> | |
|-------------------------------------|--------------------------|--------------------------|
| | <i>2020</i> <i>BD</i> | <i>2019</i> <i>BD</i> |
| Current assets | 114,726 | 257,308 |
| Non-current assets | 6,657,024 | 7,179,264 |
| Current liabilities | (4,684,593) | (508,783) |
| Non-current liabilities | - | (4,595,712) |
| Net assets | 2,087,157 | 2,332,077 |
| Proportion of the Group's ownership | 25% | 25% |
| Carrying amount of the investment | 521,789 | 583,019 |
| Loss for the year | 244,920 | (1,168,452) |
| Group's share of loss for the year | (61,230) | (292,113) |
| Foreign currency exchange loss | (4,751) | - |

Notes to the Consolidated Financial Statements

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7 INVESTMENTS IN ASSOCIATES (continued)

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

Asdaf Real Estate Company LLC ("Asdaf") was incorporated in August 2009. The Group acquired a 50% interest in the company which is to be involved in the acquisition, sale and lease of investment properties. Investment in the associate is BD 1,119 (2019: BD 1,493). The company has not yet commenced operations.

The associates had no contingent liabilities or capital commitments as at 31 December 2020 or 31 December 2019.

8 INVESTMENT SECURITIES

| | 2020 | 2019 |
|--------------------------|--------------------|-------------|
| | BD | BD |
| Equity security at FVOCI | 3,176,738 | 3,176,738 |
| Allowance for impairment | (3,176,250) | (3,176,250) |
| | 488 | 488 |

9 INVENTORY PROPERTY

| | 2020 | 2019 |
|----------------------------------------------|----------------|-------------|
| | BD | BD |
| Transfer from investment properties (note 6) | 969,458 | - |

These pertains to properties on which the Group has received down payments from buyers.

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2020 | 2019 |
|--------------------------------------------|------------------|-------------|
| | BD | BD |
| Tenant receivables | 113,969 | 146,071 |
| Amounts due from related parties (note 20) | 668,455 | 768,194 |
| Receivable from buyers | 354,732 | 648,380 |
| Prepayments | 58,152 | 53,141 |
| Security deposit | 2,696 | 85,639 |
| Advances to contractors | - | 1,177,925 |
| Other receivables | 33,799 | - |
| | 1,231,803 | 2,879,350 |

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

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10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

| | Total BD | Neither past due nor impaired | Past due but not impaired | | | More than 120 Days BD |
|-------------|----------------|-------------------------------------|---------------------------|---------------------|----------------------|--------------------------------|
| | | | 30-60 Days BD | 60-90 Days BD | 90-120 Days BD | |
| | | | | | | |
| 2020 | 113,969 | 19,992 | 36,470 | 43,707 | 13,800 | - |
| 2019 | 146,071 | 26,601 | 24,194 | 24,194 | 16,448 | 54,634 |

11 BANK BALANCES AND CASH

Cash and cash equivalents in the statement of cash flows consist of the following statement of financial position amounts:

| | 2020 BD | 2019 BD |
|---------------------------------------------------------------------------|------------|------------|
| Cash on hand and bank balances | 3,830,846 | 7,243,143 |
| Restricted cash | 350,000 | 350,000 |
| Bank balances and cash | 4,180,846 | 7,593,143 |
| Restricted cash | (350,000) | (350,000) |
| Cash and cash equivalents as per the consolidated statement of cash flows | 3,830,846 | 7,243,143 |

Bank balances are held in commercial banks in the Kingdom of Bahrain and are non-interest bearing.

12 SHARE CAPITAL

| | 2020 BD | 2019 BD |
|----------------------------------------------------------------------------------------------------|------------|------------|
| Authorised 333,390,000 (2019: 333,900,000) ordinary shares of 100 fils (2019: 100 fils) each | 33,390,000 | 33,390,000 |
| Issued, subscribed and paid up | 33,390,000 | 33,390,000 |

13 SHARE PREMIUM

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

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14 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 173,695 (2019: nil) of the profit was transferred to the statutory reserve and as of the reporting date the statutory reserves totals 50% of the paid up share capital.

15 GENERAL RESERVE

The general reserve, represents a voluntary reserve for the purpose of future capital expenditure and to enhance the capital base of the Group.

16 RETAINED EARNINGS

As of 31 December 2020 the Group's share in the statutory reserves of its subsidiaries that is not available for distribution is BD 129,772 (2019: BD 129,772).

17 TERM LOANS

| | <i>2020</i> <i>Maturity</i> | <i>2019</i> <i>Maturity</i> | <i>2020</i> <i>BD</i> | <i>2019</i> <i>BD</i> |
|-----------------------|--------------------------------|--------------------------------|--------------------------|--------------------------|
| Loan 1 | 31 October 2022 | 31 October 2021 | 9,582,767 | 9,999,410 |
| Loan 2 | 15 June 2021 | 15 December 2020 | 442,549 | 873,995 |
| Loan 3 | 31 August 2030 | 31 August 2029 | 10,000,000 | 10,000,000 |
| | | | 20,025,316 | 20,873,405 |
| Less: current portion | | | (2,635,521) | (3,066,967) |
| Non-current portion | | | 17,389,795 | 17,806,438 |

These loans are availed from financial institutions in the Kingdom of Bahrain and denominated in Bahraini Dinars. These loans carry interest at commercial rates.

The borrowings are secured by the Group's investment properties and inventory property with carrying value of BD 55,368,499 (2019: BD 50,293,958) (note 6).

The borrowings have the requirement to meet certain financial and non-financial covenants and there was no instance of non compliance at the reporting date.

Due to the adverse impact of COVID-19 lenders have granted a deferral of six months on term loan repayments. Further, upon discretion of the bank, an additional deferral was granted for Loan 1 and Loan 3. Due to this, the maturity dates of the loans were extended as disclosed above.

18 PAYABLE TO A SHAREHOLDER

The balance represents an amount payable to AIDhow Real Estate a non-controlling interest shareholder for an amount of BD 4,759,569 (2019: BD 6,139,193). The payable is interest free and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

19 ACCOUNTS PAYABLE AND ACCRUALS

| | <i>2020</i> | <i>2019</i> |
|------------------------------------------|------------------|------------------|
| | <i>BD</i> | <i>BD</i> |
| Payable to contractors | 1,012,932 | 1,036,577 |
| Amounts due to a related party (note 20) | 598,059 | 1,155,840 |
| Current account with property manager | 10,594 | 91,125 |
| Accrued expenses | 422,099 | 323,272 |
| Accrued finance costs | 483,029 | 188,313 |
| Other liabilities | 96,789 | 107,466 |
| | <u>2,623,502</u> | <u>2,902,593</u> |

20 RELATED PARTY TRANSACTIONS

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

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

A shareholder also acts as a property manager on an investment property for the Group. During the year ended 31 December 2020, the Group incurred property expenses of BD 190,884 (2019: BD 209,978) with this property manager for running the day-to-day operations, renewal of contracts and securing new tenants in relation to these properties.

Balances receivable from related parties included in the consolidated statement of financial position amounted to BD 668,455 (2019: BD 768,194) (note 10).

The balance payable to a related party included in the consolidated statement of financial position amounted to BD 598,059 (2019: BD 1,155,840) (note 19).

Outstanding receivable from related parties arise in the normal course of business and are interest free and unsecured. The Group only creates an allowance for impairment for related party balances where it is virtually certain the debt will not be recovered. For the year ended 31 December 2020, the Group has not recorded any impairment of amounts owed by related parties (2019: nil).

Compensation of key management personnel

Remuneration of directors and members of key management during the year amounted to BD 70,000 (2019: nil).

21 FINANCE COSTS

| | <i>2020</i> | <i>2019</i> |
|--------------------------------|----------------|----------------|
| | <i>BD</i> | <i>BD</i> |
| Interest expense on term loans | 280,690 | 667,379 |
| Bank charges | 89 | 322 |
| | <u>280,779</u> | <u>667,701</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

Bahraini Dinars

22 RISK MANAGEMENT

Introduction

The Group manages risks through a process of ongoing identification and monitoring of the risks it faces. The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. The Group is exposed to credit and liquidity risks. The Group's overall risk management approach is to moderate the effects of such volatility on its financial performance.

Market risk

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

Interest rate risk

The interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in the market interest rates. The Group is not subject to significant interest rate risk on its interest bearing term loans as they are availed at pre-determined interest rates.

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 revenue 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.

Currency risk

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

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

Credit risk

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

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

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

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

22 RISK MANAGEMENT (continued)**Liquidity risk**

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

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

| 2020 | On demand BD | Less than 3 months BD | 3 to 12 months BD | 1 to 5 years BD | Over 5 years BD | Total BD |
|---------------------------------------|------------------|-----------------------------|-------------------------|-----------------------|-----------------------|-------------------|
| Term loans | - | 1,549,239 | 2,315,395 | 12,115,663 | 8,898,074 | 24,878,371 |
| Payable to shareholders | 4,759,569 | - | - | - | - | 4,759,569 |
| Payable to contractors | - | 1,012,932 | - | - | - | 1,012,932 |
| Amounts due to related parties | - | 598,059 | - | - | - | 598,059 |
| Current account with property manager | - | 10,594 | - | - | - | 10,594 |
| Total | 4,759,569 | 3,170,824 | 2,315,395 | 12,115,663 | 8,898,074 | 31,259,525 |
| 2019 | On demand BD | Less than 3 months BD | 3 to 12 months BD | 1 to 5 years BD | Over 5 years BD | Total BD |
| Term loans | - | 987,638 | 2,462,396 | 15,601,979 | 8,453,698 | 27,505,711 |
| Payable to shareholders | 6,139,193 | - | - | - | - | 6,139,193 |
| Payable to contractors | - | 610,694 | 94,939 | 535,598 | - | 1,241,231 |
| Amounts due to related parties | - | 530,840 | 625,000 | - | - | 1,155,840 |
| Current account with property manager | - | 91,125 | - | - | - | 91,125 |
| Total | 6,139,193 | 2,220,297 | 3,182,335 | 16,137,577 | 8,453,698 | 36,133,100 |

22 RISK MANAGEMENT (continued)**Changes in liabilities arising from financing activities (continued)**

| | <i>As at</i> | <i>Cash flows</i> | | <i>Profit</i> | <i>As at</i> |
|---------------|-------------------|-------------------|--------------------|----------------|--------------------|
| | <i>1 January</i> | <i>Availed</i> | <i>Payments</i> | | <i>31 December</i> |
| | <i>2020</i> | <i>BD</i> | <i>BD</i> | <i>BD</i> | <i>2020</i> |
| | <i>BD</i> | <i>BD</i> | <i>BD</i> | <i>BD</i> | <i>BD</i> |
| Term loans | 20,873,405 | - | (848,089) | - | 20,025,316 |
| Finance costs | 188,313 | - | (262,883) | 557,599 | 483,029 |
| | 21,061,718 | - | (1,110,972) | 557,599 | 20,508,345 |

| | <i>As at</i> | <i>Cash flows</i> | | <i>Profit</i> | <i>As at</i> |
|---------------|-------------------|-------------------|--------------------|----------------|--------------------|
| | <i>1 January</i> | <i>Availed</i> | <i>Payments</i> | | <i>31 December</i> |
| | <i>2019</i> | <i>BD</i> | <i>BD</i> | <i>BD</i> | <i>2019</i> |
| | <i>BD</i> | <i>BD</i> | <i>BD</i> | <i>BD</i> | <i>BD</i> |
| Term loans | 13,470,939 | 10,000,000 | (2,597,534) | - | 20,873,405 |
| Finance costs | 108,720 | - | (683,212) | 762,805 | 188,313 |
| | 13,579,659 | 10,000,000 | (3,280,746) | 762,805 | 21,061,718 |

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019. Capital comprises equity of the Group and is measured at BD 46,997,256 at 31 December 2020 (31 December 2019: BD 45,265,433).

23 FAIR VALUE MEASUREMENT

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of bank balances, accounts receivable and investment securities. Financial liabilities consist of certain items of accounts payable, term loans and payable to a shareholder which are carried at amortised cost.

The carrying amounts of the Group's financial instruments such as cash and bank balances, accounts receivable, investment securities, accounts payable, term loans and payable to a shareholder are a reasonable approximation of their fair values. Thus, a fair value disclosure is not required for such financial instruments.

The Group's investment properties with a carrying value of BD 73,485,602 (2019: BD 69,792,486) falls within Level 3 of the fair value hierarchy. The disclosures relating to movement of the Level 3 is contained in note 6.

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 6.

24 NON-CONTROLLING INTERESTS

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

| 31 December 2020 | <i>Al Yal Seef Residence BD</i> | <i>Al Yal Real Estate BD</i> | <i>Urban Quarters BD</i> | <i>Total BD</i> |
|-----------------------------------------------------------------|------------------------------------------------|---------------------------------------------|-----------------------------------------|----------------------------|
| NCI percentage | 50% | 50% | 50% | |
| Non-current assets | - | 30,624,548 | 21,746 | 30,646,294 |
| Current assets | 470,058 | 1,725,344 | 770,939 | 2,966,341 |
| Non-current liabilities | - | 19,533,054 | 4,937 | 19,537,991 |
| Current liabilities | 85,810 | 1,512,903 | 752,345 | 2,351,058 |
| Net assets | 384,248 | 11,303,935 | 35,403 | 55,501,684 |
| Net assets attributable to NCI | 192,124 | 5,651,968 | 17,702 | 5,861,794 |
| Revenue | - | 661,334 | 251,583 | 912,917 |
| Profit | - | 590,287 | (36,605) | 553,682 |
| Total comprehensive income | - | 590,287 | (36,605) | 553,682 |
| Profit allocated to NCI | - | 295,144 | (18,303) | 276,841 |
| OCI allocated to NCI | - | - | - | - |
| Cash flows from operating activities | - | (4,902,380) | 46,606 | (4,855,774) |
| Cash flows from investing activities | - | 615,571 | (230) | 615,341 |
| Cash flows from financing activities (dividends to NCI: nil) | - | (106,736) | - | (106,736) |
| Net increase in cash and cash equivalents | - | (4,393,545) | 46,376 | (4,347,169) |

24 NON-CONTROLLING INTERESTS (continued)

| <i>31 December 2019</i> | <i>Al Yal Seef Residence BD</i> | <i>Al Yal Real Estate BD</i> | <i>Urban Quarters BD</i> | <i>Total BD</i> |
|-----------------------------------------------------------------|-----------------------------------------|--------------------------------------|----------------------------------|---------------------|
| NCI percentage | 50% | 50% | 50% | |
| Non-current assets | - | 10,104,098 | 28,797 | 10,132,895 |
| Current assets | 470,060 | 24,921,406 | 715,170 | 26,106,636 |
| Current liabilities | 85,809 | 24,311,932 | 671,961 | 25,069,702 |
| Net assets | 384,251 | 10,713,572 | 72,006 | 11,169,829 |
| Net assets attributable to NCI | 192,126 | 5,356,786 | 36,003 | 5,584,915 |
| Revenue | - | 2,380,262 | 109,855 | 2,490,117 |
| Profit | (750) | 300,494 | (110,360) | 189,384 |
| Total comprehensive income | (750) | 300,494 | (110,360) | 189,384 |
| Profit allocated to NCI | (375) | 150,247 | (55,180) | 94,692 |
| OCI allocated to NCI | - | - | - | - |
| Cash flows from operating activities | - | (641,135) | (6,493) | (647,628) |
| Cash flows from investing activities | - | (3,278,981) | (20,047) | (3,299,028) |
| Cash flows from financing activities (dividends to NCI: nil) | - | 9,795,660 | - | 9,795,660 |
| Net increase in cash and cash equivalents | - | 5,875,544 | (26,540) | 5,849,004 |

25 CAPITAL EXPENDITURE COMMITMENTS

There were no capital expenditure contracted for at the date of consolidated statement of financial position (2019: nil)

26 APPROPRIATIONS

The Board of Directors have proposed the following appropriations for the year 2020:

| | 2020 BD | 2019 BD |
|-------------------------------------------|--------------------|--------------------|
| Cash dividend proposed – 5 fils per share | - | 1,669,500 |

Cash dividends proposed during the year ended 31 December 2019 was cancelled with a board resolution passed on 16 April 2020 and the same was approved at the Annual General Meeting held on 21 April 2020.

