

Inovest B.S.C.

**SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2013



**Building a better
working world**

Inovest B.S.C.

Administration and contact details as at 31 December 2013

Commercial registration number

48848 obtained on 18 June 2002

Board of Directors

| | |
|------------------------------------|------------------------|
| Samir Yaqoob Al-Nafisi | - Chairman |
| Fareed Soud Al-Fozan | - Vice-Chairman |
| Ahmed Rashed Al-Qattan | - Managing Director |
| Abdul Rahman Yousif Fakhro | - Independent Director |
| Mohammed Ebrahim Al-Nughaimish | - Director |
| Jamal Abdul Rahman Al-Rowaiyeh | - Director |
| Bashar Naser Al-Tuwaijri | - Director |
| Dr. Mohammed Abdulla Fahad Al-Madi | - Director |
| Talal Khalid Al-Nesef | - Director |

Board Secretary

Riyadh Mahmood Mulla

Sharia'a Supervisory Board

| | |
|--|-----------------|
| Sheikh Dr. Mohamed Abdul Razzaq Al-Tabtabaei | - Chairman |
| Sheikh Dr. Anwar Shuaib Al-Abdulsalam | - Vice-Chairman |
| Sheikh Adnan Ali Al-Mulla | - Member |

Executive Committee Members

| | |
|----------------------------|-----------------|
| Samir Yaqoob Al-Nafisi | - Chairman |
| Ahmed Rashed Al-Qattan | - Vice-Chairman |
| Talal Khalid Al-Nesef | - Member |
| Abdul Rahman Yousif Fakhro | - Member |
| Bashar Naser Al-Tuwaijri | - Member |

Audit Committee Members

| | |
|------------------------------------|-----------------|
| Fareed Soud Al-Fozan | - Chairman |
| Mohammed Ebrahim Al-Nughaimish | - Vice-Chairman |
| Dr. Mohammed Abdulla Fahad Al-Madi | - Member |
| Jamal Abdul Rahman Al-Rowaiyeh | - Member |

Nomination and Remuneration Committee Members

| | |
|------------------------|-----------------|
| Samir Yaqoob Al-Nafisi | - Chairman |
| Fareed Soud Al-Fozan | - Vice-Chairman |
| Ahmed Rashed Al-Qattan | - Member |

Risk Committee Members

| | |
|------------------------------------|-----------------|
| Mohammed Ebrahim Al-Nughaimish | - Chairman |
| Dr. Mohammed Abdulla Fahad Al-Madi | - Vice-Chairman |
| Fareed Soud Al-Fozan | - Member |
| Jamal Abdul Rahman Al-Rowaiyeh | - Member |

Inovest B.S.C.

Administration and contact details as at 31 December 2013

Registered office

20th floor, East Tower
Bahrain Financial Harbour
PO Box 18334
Manama
Kingdom of Bahrain
Telephone no. +973 1715 5777

Bankers

Bahrain Islamic Bank
Ithmaar Bank
Kuwait Finance House
Khaleeji Commercial Bank
Al Baraka Islamic Bank

Auditor

Ernst & Young (EY)
P.O. Box 140
14th Floor, The Tower
Bahrain Commercial Complex
Manama, Kingdom of Bahrain

Registrars

Fakhro Karvy Computershare W.L.L.
Al Zamil Tower, Manama Center
P.O. Box 514
Manama
Kingdom of Bahrain

Kuwait Clearing Company S.A.K.
P.O. Box 22077
Safat 13081
State of Kuwait



Sharia Supervisory Board Report on the Activities of Inovest BSC For the Financial Year Ended on 31 December 2013

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace Upon the Last Apostle and Messenger, Our Prophet Mohammed, His Relatives and Companions.

The Shari'a Supervisory Board "The Board" of INOVEST B.S.C. has reviewed the Company activities and compared them with the issued Fatwas and Rulings during the Financial Year Ended on 31 December 2013 and found them compatible with them.

The Board believes that he has expressed its opinion in respect of the activities carried out by INOVEST and it is the responsibility of the management to ensure the implementation of such decisions.

A representative of the company's management explained and clarified the contents of the Financial Year Ended on 31 December 2013. The report of the Board has been prepared based on the information provided by the company.

The Board is satisfied that the activities and services carried by INOVEST are in compliance with the Glorious Islamic Sharia'a.

Praise be to Allah, Lord of the Worlds. Prayers be upon Prophet Mohammed Peace Be Upon Him, Relatives and Companions.

On behalf of the Committee,

Shaikh Dr. Mohammed A. Razaiq Al Tabtabaee
Chairman

Shaikh Adnan Ali Mulla
Vice Chairman

Shaikh Anwar Shuaib Abdul Salam
Member

The image shows three handwritten signatures. The first signature is on the left, the second is in the middle, and the third is on the right. The third signature has the word 'الز' (Al-Z) written next to it.



Report of Board of Directors for the year ending on 31st December 2013
In the name of Allah, Most Gracious, Most Merciful

On my behalf myself and on behalf of the members of the Board of Directors of INOVEST Company, I have the pleasure to present to you the annual report of the group for the fiscal year ending on 31st December 2013.

By the end of 2013, about five years have passed to one of the worst financial crises, which created a difficult economic reality, and this new reality was accompanied with circumstances not encouraging investors entering into new green field investments. At the same level, this situation represented big challenges before many economic entities and their effects were evident on various sectors. It was the destiny of INOVEST to face those circumstances with determination and insistence on exceeding their consequences, deriving its power from stability of its assets amounting to USD 293 Million by the end of 2013, and stability of its financial position, where the Capital Adequacy Ratio was 169% compared to the Central Bank of Bahrain's requirement of 110%.

Performance of the Company

INOVEST Company went on its strategy, namely to concentrate on projects on which it established, and in some of them it achieved remarkable positive developments, on top of which is Durrat Marina Project where the development operations were accelerated in the project during last year, and operations of development of Phase One on residential villas are about to be completed. As well as, Phase One finished the infrastructure works, and shifted to Phase Two. Other features also started to appear in components of the Project, development of Yachts Club was finished, in addition to Marina, which can host up to 375 boats, distributed between water and outside anchorages.

Further, during the year 2013, there was cooperation with one of contractors, and started to develop residential buildings, which include number 268 apartments, and meanwhile these flats were marketed by marketing team; and more than 50% of them have been sold to investors from inside and outside the Kingdom of Bahrain. These recent developments encouraged one of the developers, who owns one of lands of the Project, and it is hoped that the Developer will start developing the land within the first half of the year 2014.

Furthermore, the financial statements indicated improvement of performance of other investments, such as the Labor Accommodation project, whose number of ready buildings included in the project, was 16 buildings; and by the end of the year 2013, 8 buildings were sold, with total value amounting to USD 18.7 million. It should be noted that the remaining



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buildings are totally leased out, and the buildings related to Phase Two are consecutively developed from sales & leasing revenues, where we can say that the Project has become able to self-sufficient.

In addition, the financial statements indicated an improvement in performance of the subsidiaries, whereas CIRCO was shifted after years of incorporation to profitability, and we are confident that its performance will be in a continuous improvement just like the other subsidiaries, and projects made by INOVEST; and it is hoped that the lease operations will be accelerated by Takhzeen Storage & Warehousing company that already achieved breakeven in the second year of operations and the company is expected to start generating profits in 2014.

On the other hand, TAMCON Contracting Company continues to demonstrate its importance as a main contributor within INOVEST Group of Companies, and this is confirmed by volume of works it performs, and also good reputation that enabled them to gain the trust of the concerned Government authorities, by rendering its services to the citizens, represented by Ministry of Housing and developers by the volume of work entrusted to it by the Government of Bahrain, whereas the year 2013 was a fruitful year to TAMCON, and it was successful in winning a number of tenders presented by the Ministry of Housing, whose total value was more than USD 7 million, and it is related to housing and service projects distributed to a number of areas of the Kingdom, such as a housing project in Northern Province, and another one in Umm Al Hassam, in addition to a school in Al Haninia Area, a project of execution of infrastructure works of a housing project in Samaheej Area, and an important part of these works is related to the Gulf Marshal Projects. TAMCON Contracting Company was able to finish a volume of work amounting to USD 14 million during the year 2013, and it was related to Arad and Sanad Housing Projects, in addition to delivery of Yachts Club Project, belonging to Durrat Marina.

These positive developments stemmed directly from Inovest's strategy, whose aim is to boost the revenues, insure the liquidity required for stability of the Company; and on the other hand, the executive management exerted arduous efforts to control the expenses and rationalize the expenditures, so that they may be able to be more effective and efficient. These efforts were successful in decreasing the operational expenses to USD 12 Million by the end of 2013, compared to USD 14.1 Million by the end of the year 2012. The Company's ability to meet its finance obligations was a key during the financial crisis. The Company managed to reduce its outstanding financing facilities from USD 101 Million at the end of 2008 to USD 40 Million by the end of 2013.



INOVEST
Real Estate Development & Investment
Company Limited

Future Outlook

In the beginning of the New Year 2014, we started to feel clear indicators that support reasons of stability of prices of real estates, and waiting for them to improve further, this fact is confirmed by the increased trading volume of real estate and the announcements of the concerned authorities in the Kingdom of Bahrain. We also feel this through Tameer and its subsidiaries; and this phenomenon is not only felt by us in the Kingdom of Bahrain, but also is also felt with various degrees in all GCC Countries, whereas prices and activities of real estates were stable.

The Saudi Market hosts one of our main projects, namely Dammam Resort Development Project in Half Moon Bay in the Eastern Province. The year 2014 may represent to us a window of opportunity to exit from this investment at a reasonably good value by either selling the project to a new investor, or re-structuring it to be within a new investment fund.

In addition, during the year 2014, INOVEST is planning to have an exit certain private equity investments most of which in the field of investment and real estate financing located Bahrain and Other GCC countries. Through these exits, the company aims at re-structuring the investment portfolio.

On behalf of members of the Board of Directors, I would like to express my sincere thanks and wishes to our generous shareholders for their continuous patience and support to the Company, and efforts exerted by the Board of Directors and the Executive Management, and also would like to express my sincere thanks and appreciation to the investors and strategic partners who played a vital role in support of works of the Company, and also employees of INOVEST for their dedication in work and sincere efforts they exerted and serious work they did; and at last I would like to thank my colleagues, the members of the Board of Directors for the precious time and great efforts to overcome the challenges we have experiences.

We pray to Almighty Allah to support us in achieving more success. Amen.

On behalf of members of the Board of Directors

Samir Yaqoub Al Nafisi
Chairman of the Board of Directors
12 February 2014.



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C.R. No. 6700

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INOVEST B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Inovert B.S.C. (the "Company") and its subsidiaries (together the "Group"), as of 31 December 2013, and the related consolidated statements of income, cash flows, changes in owners' equity and sources and uses of charity fund for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2013, the results of its operations, its cash flows, changes in owners' equity and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain ("CBB") Rule Book (Volume 4), we report that:

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

Except for what has been reported in note 1 to the consolidated financial statements, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2013 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Group has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INOVEST B.S.C.
(continued)**

Other matters

The consolidated financial statements of the Group for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified audit opinion dated 6 February 2013 on those consolidated financial statements.

Ernst & Young

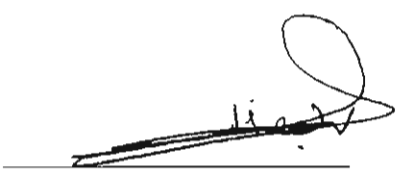
12 February 2014

Manama, Kingdom of Bahrain

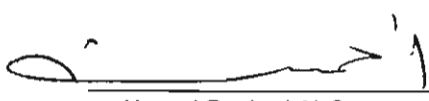
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

| | Note | 2013 US\$ '000 | 2012 US\$ '000 |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | 5 | 17,177 | 6,109 |
| Mudaraba and murabaha financing | | - | 3,760 |
| Trade and other receivables | 6 | 60,430 | 67,946 |
| Investments | 7 | 23,430 | 26,611 |
| Investment in a joint venture and associates | 8 | 98,245 | 90,811 |
| Investment in real estate | 9 | 81,114 | 89,598 |
| Properties under development | | 5,638 | - |
| Property, plant and equipment | 10 | 7,075 | 7,706 |
| TOTAL ASSETS | | 293,109 | 292,541 |
| LIABILITIES AND OWNERS' EQUITY | | | |
| Liabilities | | | |
| Trade and other payables | 11 | 86,867 | 82,052 |
| Ijara and murabaha financing | 12 | 39,957 | 39,268 |
| Total liabilities | | 126,824 | 121,320 |
| Owners' Equity | | | |
| Share capital | 13 | 114,604 | 114,604 |
| Less: Treasury shares | 13 | (651) | (651) |
| | | 113,953 | 113,953 |
| Share premium | 14 | 30,760 | 30,760 |
| Statutory reserve | 14 | 21,473 | 21,473 |
| Share option reserve | 14 | 35 | 28 |
| Retained earnings | | 64 | 5,007 |
| Total owners' equity | | 166,285 | 171,221 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | | 293,109 | 292,541 |



Samir Yaqoob Al-Nafisi
Chairman

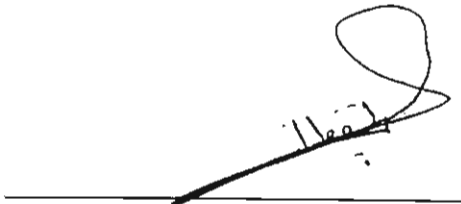


Ahmed Rashed Al-Qattan
Managing Director

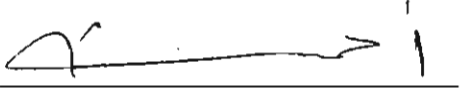
CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

| | <i>Note</i> | 2013 US\$ '000 | 2012 US\$ '000 |
|--|-------------|---------------------------------|---------------------------------|
| OPERATING INCOME | | | |
| Income from investment in real estate | 15 | 5,657 | 1,238 |
| Income from investments | 16 | 925 | 777 |
| Income from advisory services | 17 | 5,325 | 2,329 |
| Net income from construction contracts | 18 | 764 | 3,167 |
| Net share of (loss) profit from investment in a joint venture and associates | 8 | (901) | 883 |
| Other income | | 237 | 183 |
| TOTAL OPERATING INCOME | | 12,007 | 8,577 |
| OPERATING EXPENSES | | | |
| Staff costs | 19 | 4,585 | 5,263 |
| General and administrative expenses | 20 | 3,093 | 3,889 |
| Ijara and Murabaha financing costs | | 3,471 | 4,011 |
| Property related expenses | | 134 | 181 |
| Depreciation | 10 | 738 | 922 |
| TOTAL OPERATING EXPENSES | | 12,021 | 14,266 |
| NET OPERATING LOSS | | (14) | (5,689) |
| Provision - net | 21 | (4,929) | (3,335) |
| LOSS FOR THE YEAR | | (4,943) | (9,024) |
| BASIC AND DILUTED EARNINGS PER SHARE (US cents) | 22 | (1.74) | (3.17) |



Samir Yaqoob Al-Nafisi
Chairman



Ahmed Rashed Al-Qattan
Managing Director

Inovest B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2013

| | Share capital US\$ '000 | Treasury shares US\$ '000 | Share premium US\$ '000 | Statutory reserve US\$ '000 | Share option reserve US\$ '000 | Retained earnings US\$ '000 | Total owners' equity US\$ '000 |
|------------------------------------|-------------------------------|---------------------------------|-------------------------------|-----------------------------------|---|-----------------------------------|---|
| Balance at 1 January 2013 | 114,604 | (651) | 30,760 | 21,473 | 28 | 5,007 | 171,221 |
| Net loss for the year | - | - | - | - | - | (4,943) | (4,943) |
| Share option charge (net) | - | - | - | - | 7 | - | 7 |
| Balance at 31 December 2013 | 114,604 | (651) | 30,760 | 21,473 | 35 | 64 | 166,285 |
| Balance at 1 January 2012 | 114,604 | (651) | 30,760 | 21,473 | 474 | 14,031 | 180,691 |
| Net loss for the year | - | - | - | - | - | (9,024) | (9,024) |
| Share option charge (net) | - | - | - | - | (446) | - | (446) |
| Balance at 31 December 2012 | 114,604 | (651) | 30,760 | 21,473 | 28 | 5,007 | 171,221 |

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY

For the year ended 31 December 2013

| | 2013 US\$ '000 | 2012 US\$ '000 |
|--|---------------------------------|---------------------------------|
| Sources of charity funds | | |
| Undistributed charity funds at the beginning of the year | 642 | 786 |
| Contributions by the Company | - | - |
| Total sources of charity funds during the year | 642 | 786 |
| Uses of charity funds | | |
| Contributions for charitable purposes | 13 | 144 |
| Total uses of funds during the year | 13 | 144 |
| Undistributed charity funds at 31 December | 629 | 642 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

| | <i>Note</i> | 2013 US\$ '000 | 2012 US\$ '000 |
|--|-------------|---------------------------------|---------------------------------|
| OPERATING ACTIVITIES | | | |
| Net loss for the year | | (4,943) | (9,024) |
| Adjustments for: | | | |
| Depreciation | 10 | 977 | 1,174 |
| Charge (write back) on share option | | 7 | (446) |
| Net provision (write back) charge for impaired receivables | 21 | (102) | 1,061 |
| Provision for case compensation | 8 | 3,288 | - |
| Net share of (loss) profit from investment in a joint venture and associates | 8 | 901 | (883) |
| Profit on sale of property, plant and equipment | | - | (49) |
| Realised (loss) gain on sale of investment in real estate | | 1,043 | (1,506) |
| Unrealised fair value loss on investment in real estate | 9 | 171 | 1,685 |
| Net impairment loss on investments | 7 | 1,743 | 2,274 |
| | | 3,085 | (5,714) |
| Net changes in operating assets and liabilities: | | | |
| Trade and other receivables | | 4,287 | (1,630) |
| Trade and other payables | | 4,081 | 1,519 |
| Net cash from (used in) operating activities | | 11,453 | (5,825) |
| INVESTING ACTIVITIES | | | |
| Net movement in Mudaraba and Murabaha financing | | 3,760 | 5,282 |
| Purchase of investments | 7 | (2,500) | (40) |
| Purchase of investment in real estate | | (268) | - |
| Proceeds from sale of investment in real estate - net | | 6,522 | 6,000 |
| Additions to properties under development | | (3,845) | - |
| Purchase of investment in a joint venture and associates | 8 | (16,627) | - |
| Proceeds from capital redemption from investment in a joint venture and associates | 8 | 11,832 | 752 |
| Dividends received from a joint venture and associates | 8 | 398 | 319 |
| Purchase of property, plant and equipment | 10 | (370) | (785) |
| Proceeds from sale of property, plant and equipment | | 24 | 52 |
| Net cash (used in) from investing activities | | (1,074) | 11,580 |
| FINANCING ACTIVITY | | | |
| Net movement in Murabaha financing | 12 | 689 | (10,785) |
| Net cash from (used in) financing activity | | 689 | (10,785) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 11,068 | (5,030) |
| Cash and cash equivalents at the beginning of the year | | 6,109 | 11,139 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 5 | 17,177 | 6,109 |
| Non cash transactions comprise: | | | |
| Transfer of investment in real estate to property, plant and equipment | | - | (1,939) |
| Transfer of investment in real estate to properties under development | 9 | 1,793 | - |
| Transfer of investments to investments in a joint venture and associates | 8 | 3,938 | - |
| Settlement of trade receivables through acquisition of investment in real estate | 15 | 3,331 | - |
| Settlement of related party payables by transfer of investment in real estate | | 2,554 | - |
| | | 11,616 | (1,939) |

The attached notes 1 to 29 form part of these consolidated financial statements.

At 31 December 2013

1 CORPORATE INFORMATION AND ACTIVITIES

a) Incorporation

Inovest B.S.C. (the "Company") is a public shareholding company incorporated in the Kingdom of Bahrain on 18 June 2002 and operates under Commercial Registration (CR) number 48848. The Company commenced operations on 1 October 2002. Under the terms of its Memorandum and Articles of Association, the duration of the Company is 50 years, renewable for further similar periods unless terminated earlier by law or as stated in the Memorandum and Articles of Association. The address of the Company's registered office is 20th floor, East Tower, Bahrain Financial Harbour, Manama, Kingdom of Bahrain.

The Company is listed on the Bahrain Bourse and cross-listed on the Kuwait Stock Exchange.

The Company operates under an Investment Business Firm License – Category 1 (Islamic Principles) issued by the Central Bank of Bahrain ("CBB"), to operate under the Islamic Shari'a principles, and is supervised and regulated by the CBB.

b) Activities

The principal activities of the Company together with its subsidiaries (the "Group") include:

- Engaging directly in all types of investments, including direct investment and securities, and various types of investment funds;
- Establishing and managing various investment funds;
- Dealing in financial instruments in the local, regional and international markets;
- Providing information and studies related to different types of investments for others;
- Providing financial services and investment consultations to others;
- Establishing joint ventures with real estate, industrial and services companies inside or outside the Kingdom of Bahrain and committing to operate under the Islamic Shari'a principles;
- Engaging in contracting activities;
- Engaging in the management of commercial and industrial centers and residential buildings, property leasing, development and their maintenance; and
- Having interest in or participating in any way with companies and other entities engaged in similar activities that may work and co-operate to achieve the Group's objectives inside and outside the Kingdom of Bahrain, and also merge its activities with the above mentioned entities and/or buy or join with them.

Although the Company has an Investment Business Firm License – Category 1 (Islamic Principles) issued by the CBB in September 2008, it continues to hold real estate assets and related revenues and costs in its consolidated financial statements. These assets existed prior to obtaining the license from the CBB. The Company has transferred its entire real estate assets and the related revenues and costs to its fully owned subsidiary, Al Khaleej Development Co. B.S.C.(c), which primarily carries out real estate and construction related activities. Since Al Khaleej Development Co. B.S.C.(c) is fully owned by the Company, the real estate assets and revenues and costs continue to appear in the consolidated financial statements of the Group for the year ended 31 December 2013. Notes 9, 12, 15 and 18 in these consolidated financial statements reflect the Group's transactions arising from holding of real estate assets and their corresponding liabilities and revenues and costs arising therefrom.

The number of staff employed by the Group as at 31 December 2013 was 527 (31 December 2012: 552).

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors dated 12 February 2014.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the CBB, Financial Institutions Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6), CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms of the Company's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB").

2.2 Accounting convention

The consolidated financial statements have been prepared on a historical cost basis, except for investment in a joint venture and associates which are equity accounted, equity-type instruments at fair value through equity and investment in real estate that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ("US Dollars") being the reporting currency of the Group. All values are rounded to the nearest US Dollar thousands unless otherwise indicated.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Company and continue to be consolidated until the date that control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

At 31 December 2013

2 BASIS OF PREPARATION (continued)**2.3 Basis of consolidation (continued)**

The following are the principal subsidiaries of the Company, which are consolidated in these consolidated financial statements:

| <i>Name of the subsidiary</i> | <i>Ownership 2013 and 2012</i> | <i>Country of incorporation</i> | <i>Year of incorporation</i> | <i>Activity</i> |
|--|--|-------------------------------------|----------------------------------|---|
| <i>Held directly by the Company</i> | | | | |
| Al Khaleej Development Co. B.S.C. (c) | 99.98% | Kingdom of Bahrain | 2009 | Purchase, sale, management and development of properties |
| Tameer for Private Management W.L.L. | 99.00% | Kingdom of Bahrain | 2004 | Holds the Group's shares on behalf of its employees in respect of the employees' share option plan |

The following are the subsidiaries held indirectly through Al Khaleej Development Co. B.S.C. (c):

| | | | | |
|---|--------|--------------------|------|---|
| <i>Held indirectly by the Company</i> | | | | |
| Bahrain Investment Wharf B.S.C. (c) | 99.00% | Kingdom of Bahrain | 2006 | Development, maintenance, leasing and management of commercial and industrial centers, residential buildings and property |
| Circo Total Facility Management Co. W.L.L. | 99.00% | Kingdom of Bahrain | 2005 | Management and maintenance of properties |
| Tamcon Contracting Co. B.S.C. (c) | 99.00% | Kingdom of Bahrain | 2007 | Contracting activities |

The consolidated financial statements of the subsidiaries have been consolidated as though the Company owns 100% of these subsidiaries, as the other shareholders hold their shares on behalf of and for the beneficial interest of the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as of 1 January 2013.

New accounting standard**FAS 26 *Investment in real estate***

During 2012, AAOIFI issued new Financial Accounting Standard (FAS 26) "Investment in real estate", which is effective as of 1 January 2013.

FAS 26 covers the recognition, measurement, presentation and disclosure of investment in real estate which is acquired for the purpose of earning periodical income or held for capital appreciation or both. The adoption had no effect on the classification and measurement of the Group's investments in real estate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, bank balances and short term Mudaraba and Murabaha deposits with an original maturity of three months or less.

b. Mudaraba and murabaha financing

Mudaraba financing is partnership in which the Group contributes capital. Murabaha consists of sale transaction agreements (Murabaha) and commodity agreements stated at net of deferred profit and provision for impairment. These are amounts placed with financial institutions with maturity between 91 and 360 days. The contracts are stated at fair value of consideration given less impairment. The Group considers the promise made in Murabaha to the purchase orderer as obligatory.

c. Trade and other receivables

Trade receivables are carried at their anticipated values. An estimate is made for impaired trade receivables based on a review of all outstanding amounts at the year end.

d. Investments

Investments comprise equity-type instruments at fair value through equity, investment in real estate, properties under development and investment in a joint venture and associates.

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are not fair valued through consolidated statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised in owners' equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity is recognised in consolidated statement of income.

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment in real estate are re-measured at fair value and changes in fair value (only gains) are recognised through the consolidated statement of owners' equity.

Losses arising from changes in the fair values of investment in real estate are recognised in the consolidated statement of income. When the property is disposed of, the gains or losses arising on disposal is transferred to the consolidated statement of income.

Properties under development

Properties under development represent properties held for sale in the ordinary course of business or in the process of construction and development for its future sale. Properties under development include expenditure incurred in the normal course of developing and constructing the property and are stated at lower of cost or fair value less cost to sell.

Properties under development are derecognised when they have either been disposed off, or when the property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of a property under development are recognised in the consolidated statement of income in the year of derecognition.

Investment in associates and a joint venture

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Investments (continued)

Investment in associates and a joint venture (continued)

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

Under the equity method, investment in associates and a joint venture are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associates and joint venture. The consolidated statement of income reflects the Group's share of the results of operations of the associates and joint venture. Where there has been a change recognised directly in the equity of the associates and joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Unrealised gains and losses resulting from transactions between the Group and the associates and joint venture are eliminated to the extent of the interest in the associates and joint venture.

The reporting dates of associates and joint venture and the Group are identical and the associates' and joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in associates and joint venture. The Group determines at each reporting date whether there is any objective evidence that investment in associates or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of associates and joint venture and its carrying value and recognises the impairment in the consolidated statement of income.

e. Fair values

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**f. Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation on premises and equipment is provided on a straight-line basis over the following estimated useful lives:

| | |
|--|-----------|
| Building on leasehold land | 25 years |
| Machinery, equipment, furniture and fixtures | 3-5 years |
| Computer hardware and software | 3 years |
| Motor vehicles | 3 years |

g. Trade and other payables

Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

h. Ijara and murabaha financing

Ijara and murabaha financing are recognised initially at the proceeds received, net of transaction cost incurred. Subsequently, these are carried at amortised cost.

i. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from the equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in the equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

j. Derecognition of financial assets and financial liabilities*(i) 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 where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them 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.

(ii) Financial liabilities

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

k. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and reliably measurable. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

l. Amortised cost measurement

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

n. 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. The following specific recognition criteria must also be met before revenue is recognised:

(i) Income from properties

Rental income arising from operating leases on investment in real estate is accounted for on a straight-line basis over the lease terms and is included under revenue in the consolidated statement of income due to its operating nature.

(ii) Income from advisory services

Income from advisory services and project management fees are recognised based on the stage of completion of the service at the consolidated statement of financial position date by reference to the contractual terms agreed between the parties.

(iii) Income from investments

Income from investments is recognised when earned.

(iv) Income from construction contracts

Contract income is recognised under the percentage of completion method.

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of physical completion of the contract. Contract income and costs are recognised as income and expenses in the consolidated statement of income in the accounting year in which the work is performed. The contract income is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of income, expenses and profit which can be attributed to the proportion of work completed. Profits expected to be realised on construction contracts are based on estimates of total income and cost at completion.

When the outcome of a construction contract cannot be estimated reliably, the contract income is recognised to the extent of contract costs incurred up to the year end where it is probable those costs will be recoverable. Contract costs are recognised when incurred. The excess of progress billings over contract costs is classified under trade and other payables as due to customers for construction contracts.

Losses on contracts are assessed on an individual contract basis and if estimates of cost to complete the construction contracts indicate losses, provision is made for the full losses anticipated in the period in which they are first identified.

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the year end. Where the sum of the costs incurred and recognised profit or loss exceeds the progress billings, the balance is shown under trade and other receivables as due from customers for construction contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or loss, the balance is shown under trade and other payables as due to customers for construction contracts.

o. Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

q. Foreign currencies

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

Monetary assets and liabilities in foreign currencies are translated into United States Dollars at functional currency rates of exchange prevailing at the statement of financial position date. Any gains or losses are recognised in the consolidated statement of income.

r. Employees' end of service benefits

Bahraini employees are covered by the Social Insurance Organisation scheme which comprises a defined contribution scheme to which the Group contributes a monthly sum based on a fixed percentage of the salary. The contribution is recognised as an expense in the consolidated statement of income.

The Group provides end of service benefits to its non-Bahraini employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits which comprise a defined benefit scheme are accrued over the period of employment based on the notional amount payable if all employees had left at the statement of financial position date.

s. Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

In the case of equity-type instruments at fair value through equity, impairment is reflected directly as write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income, while any subsequent increase in their fair value are recognised directly in owners' equity.

t. Events after the statement of financial position date

The consolidated financial statements are adjusted to reflect events that occurred between the statement of financial position date and the date the consolidated financial statements are authorised for issue, provided they give evidence of conditions that existed as of the statement of financial position date. Events that are indicative of conditions that arose after the statement of financial position date are disclosed, but do not result in an adjustment to the consolidated financial statements.

u. Zakah

Individual shareholders are responsible for payment of Zakah.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

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

Classification of investments

Management decides on acquisition of an investment, whether it should be classified as equity-type instrument at fair value through the consolidated statement of income, equity-type instruments at fair value through equity or debt-type instrument at amortised cost.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described 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 beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Going concern

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

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of consolidated financial statements.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Special purpose entities

The Group sponsors the formation of special purpose entities ("SPE") primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPEs, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgments are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**Estimates and assumptions (continued)***Impairment and uncollectibility of financial assets*

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

Liquidity

The Group manages its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in the liquidity risk disclosures in note 27 to the consolidated financial statements. This requires judgement when determining the maturity of assets and liabilities with no specific maturities.

5 CASH AND CASH EQUIVALENTS

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|-------------------|-------------------|
| Short-term Mudaraba and Murabaha deposits | 8,592 | 618 |
| Current account balances with banks | 8,570 | 5,475 |
| Cash in hand | 15 | 16 |
| | <u>17,177</u> | <u>6,109</u> |

The current account balances with banks are non-profit bearing.

6 TRADE AND OTHER RECEIVABLES

| | 2013 US\$ '000 | 2012 US\$ '000 |
|--|-------------------|-------------------|
| Trade receivables | 26,779 | 32,418 |
| Amounts due from related parties (note 23) | 36,134 | 35,033 |
| Prepayments and other receivables | 1,889 | 4,761 |
| Rent receivable | 396 | 399 |
| Advance to contractors and suppliers | 532 | 737 |
| | <u>65,730</u> | <u>73,348</u> |
| Less: provision for impaired receivables | <u>(5,300)</u> | <u>(5,402)</u> |
| | <u>60,430</u> | <u>67,946</u> |

Amounts due from related parties are unsecured, bear no profit and have no fixed repayment terms.

The trade receivables stated at a carrying amount of US\$ 15.13 million (2012: US\$ 15.13 million) are secured as collateral against the Ijara and Murabaha financing facilities obtained (note 12).

The movement in the Group's provision for impaired receivables is as follows:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|----------------------------|-------------------|-------------------|
| At 1 January | 5,402 | 4,400 |
| Charge during the year | 1,888 | 1,061 |
| Write back during the year | <u>(1,990)</u> | <u>(59)</u> |
| At 31 December | <u>5,300</u> | <u>5,402</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

7 INVESTMENTS

| | 2013 US\$ '000 | 2012 US\$ '000 |
|--|-------------------|-------------------|
| Equity-type instruments at fair value through equity - Unquoted | | |
| Real estate related | 24,039 | 27,977 |
| Others | 6,892 | 4,392 |
| | 30,931 | 32,369 |
| Less: Provision for impairment | (7,501) | (5,758) |
| At 31 December | 23,430 | 26,611 |

Equity-type investments at fair value through equity include investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for accruing at a reliable fair value.

The investments stated at a carrying amount of US\$ 5.31 million (2012: US\$ 5.31 million) are secured as collateral against the Ijara and Murabaha facilities obtained (note 12).

The movement in provision for impairment on investments is as follows:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|--------------------------|-------------------|-------------------|
| At 1 January | 5,758 | 3,484 |
| Charge during the year | 1,998 | 2,274 |
| Recovery during the year | (255) | - |
| At 31 December | 7,501 | 5,758 |

8 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES

| | 2013 US\$ '000 | 2012 US\$ '000 |
|--------------------------------------|-------------------|-------------------|
| At 1 January | 90,811 | 90,999 |
| Purchases during the year (note 8.1) | 16,627 | - |
| Disposals during the year | (11,832) | (752) |
| Transfer from investments | 3,938 | - |
| Dividends received during the year | (398) | (319) |
| Net share of (loss) profit | (901) | 883 |
| At 31 December | 98,245 | 90,811 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

8 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES (continued)**Note 8.1**

During the year 2012, an investor who invested in a project through a company managed by the Group, filed a lawsuit against the Group claiming an amount of US\$ 18.98 up to US\$ 23.70 million, which includes the invested amount, compensation and lawyer fees. The court issued an order during the year for the Group to pay an amount of US\$ 19.23 million covering the invested amount along with the compensation and other fees in instalments within one year. The Group recapitalised its investment amounting to US\$ 15.90 million and recorded the excess as provision for compensation of US\$ 3.33 million in its consolidated financial statements.

The Group has paid three instalments to the investor during the year amounting to US\$ 8.70 million. The remaining balance to be paid of US\$ 10.53 million is reported under trade and other payables. Currently, the Group has 49.66% stake in the concerned company, the Group continues to treat this investment as an associate and accounted using the equity method.

The Group has an investment in the following joint venture:

| <i>Name</i> | <i>Principal activities</i> | <i>Ownership</i> | |
|----------------------------------|--|------------------|-------------|
| | | <i>2013</i> | <i>2012</i> |
| Tala Property Development W.L.L. | Property management, development and maintenance and purchase and sale of properties | 60.00% | 60.00% |

| <i>Name</i> | <i>Country of incorporation</i> | <i>Carrying value</i> | |
|----------------------------------|---------------------------------|-----------------------|------------------|
| | | <i>2013</i> | <i>2012</i> |
| | | <i>US\$ '000</i> | <i>US\$ '000</i> |
| Tala Property Development W.L.L. | <i>Kingdom of Bahrain</i> | 10,579 | 10,557 |

Summarised financial information of joint venture

Summarised financial information of the joint venture based on the management accounts, are presented below:

| | <i>2013</i> | <i>2012</i> |
|-------------------|------------------|------------------|
| | <i>US\$ '000</i> | <i>US\$ '000</i> |
| Total assets | 24,347 | 24,645 |
| Total liabilities | 6,715 | 7,050 |
| Total revenues | 1,841 | 6,085 |
| Total net profit | 699 | 5,037 |

The joint venture had no contingent liabilities or capital commitments as at 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

8 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES (continued)

The principal associates of the Group are:

| <i>Name of associate</i> | <i>Principal activities</i> | <i>Ownership</i> | |
|---|---|-----------------------|-------------|
| | | <i>2013</i> | <i>2012</i> |
| Aseel Real Estate Company* | <i>Purchase, sale, development and management of private</i> | 23.40% | 3.40% |
| Durrat Marina Investment Company Ltd. | <i>Development and sale of commercial and residential properties</i> | 25.78% | 25.78% |
| BIW Labour Accommodation W.L.L. | <i>Development and maintenance of labour camps</i> | 27.08% | 27.08% |
| Madaen Al Luzi Company Ltd. | <i>Development and sale of residential properties</i> | 29.28% | 29.28% |
| Takhzeen Warehousing and Storage Company B.S.C. (c) | <i>Management and maintenance of warehouses</i> | 34.33% | 34.33% |
| Al Dhahran Views Project** | <i>Development of real estate in Dhahran, Kingdom of Saudi Arabia</i> | 23.17% | - |
| Dannat Resort Development Company Ltd (note 8.1) | <i>Development of real estate in Al Khobar, Kingdom of Saudi Arabia</i> | 49.66% | 30.39% |
| <i>Name of associate</i> | <i>Country of incorporation</i> | <i>Carrying Value</i> | |
| | | <i>2013</i> | <i>2012</i> |
| Aseel Real Estate Company* | Cayman Islands | 822 | - |
| Durrat Marina Investment Company Ltd. | Cayman Islands | 32,913 | 33,533 |
| BIW Labour Accommodation W.L.L. | Kingdom of Bahrain | 12,012 | 11,928 |
| Madaen Al Luzi Company Ltd. | Cayman Islands | 5,634 | 6,304 |
| Takhzeen Warehousing and Storage Company B.S.C. (c) | Kingdom of Bahrain | 4,212 | 4,634 |
| Al Dhahran Views Project** | Kingdom of Saudi Arabia | 3,599 | - |
| Dannat Resort Development Company Ltd. | Cayman Islands | 28,474 | 23,855 |
| | | 87,666 | 80,254 |

* As a result of additional investment, the investment was transferred from equity type investments at fair value through equity during the year.

** The investment was swapped with equity type investment at fair value through equity. However, the Company received an equity stake of 23.17% in the new investment. Having significant influence, the investment has been classified as an associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

8 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES (continued)

Summarised financial information of associates, based on the management accounts, are presented below:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|-------------------|-------------------|
| Summarised financial information of associates | | |
| Total assets | 323,861 | 322,468 |
| Total liabilities | 44,906 | 34,956 |
| Total revenues | 1,087 | (5) |
| Total net loss | (2,763) | (8,173) |

The associates had no contingent liabilities or capital commitments as at 31 December 2013 and 2012.

As at 31 December 2013, none of the Group's investment in a joint venture and associates is secured as a collateral against the Ijara and Murabaha facilities obtained (31 December 2012: US\$ 10.56 million) (note 12).

9 INVESTMENT IN REAL ESTATE

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|-------------------|-------------------|
| At 1 January | 89,598 | 97,716 |
| Purchases during the year | 3,599 | 947 |
| Disposals during the year | (10,119) | (5,441) |
| Transferred to properties under development | (1,793) | - |
| Transferred to property, plant and equipment | - | (1,939) |
| Unrealised fair value loss on investment in real estate | (171) | (1,685) |
| At 31 December | 81,114 | 89,598 |

Investment in real estate is stated at fair value which has been determined based on valuations performed by accredited independent property valuers. The valuations undertaken were based on open market values, which represent the prices at which the properties could be exchanged between knowledgeable willing buyers and knowledgeable willing sellers in an arm's length transaction.

Investment in real estate stated at a carrying amount of US\$ 40.09 million (2012: US\$ 57.29 million) is secured as collateral against the Ijara and Murabaha facilities obtained (note 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

10 PROPERTY, PLANT AND EQUIPMENT

| | <i>Buildings on leasehold land</i> | <i>Machinery, equipment furniture and fixtures</i> | <i>Computer hardware and software</i> | <i>Motor vehicles</i> | <i>Capital work-in- progress</i> | <i>Total</i> |
|---------------------------------|--|--|---|---------------------------|--|------------------|
| | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> |
| Cost | | | | | | |
| At 1 January 2013 | 4,284 | 4,586 | 1,267 | 1,138 | 2,071 | 13,346 |
| Additions | - | 41 | 30 | 191 | 108 | 370 |
| Disposals | - | - | (8) | (48) | - | (56) |
| At 31 December 2013 | 4,284 | 4,627 | 1,289 | 1,281 | 2,179 | 13,660 |
| Accumulated depreciation | | | | | | |
| At 1 January 2013 | 384 | 3,306 | 1,145 | 805 | - | 5,640 |
| Charge | 170 | 591 | 61 | 155 | - | 977 |
| Disposals | - | - | (5) | (27) | - | (32) |
| At 31 December 2013 | 554 | 3,897 | 1,201 | 933 | - | 6,585 |
| Net book amount: | | | | | | |
| At 31 December 2013 | 3,730 | 730 | 88 | 348 | 2,179 | 7,075 |
| <i>At 31 December 2012</i> | <i>3,900</i> | <i>1,280</i> | <i>122</i> | <i>333</i> | <i>2,071</i> | <i>7,706</i> |

Depreciation on property, plant and equipment charged to the consolidated statement of income is as follows:

| | 2013 | 2012 |
|--|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| Depreciation charged to contract costs (note 18) | 239 | 252 |
| Depreciation charged to expenses | 738 | 922 |
| | 977 | 1,174 |

11 TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|--|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| Lease rent payables (note 11.1) | 50,105 | 50,105 |
| Accruals and other payables | 18,415 | 18,695 |
| Case compensation (note 8.1) | 10,870 | - |
| Trade payables (note 11.2) | 4,597 | 6,455 |
| Amounts due to related parties (note 11.3) | 1,612 | 5,748 |
| Retentions payable | 1,268 | 1,049 |
| | 86,867 | 82,052 |

Note 11.1

Lease rent payable relates to a subsidiary of the Company and is of a long-term nature.

Note 11.2

Trade payables are generally payable within 60 to 90 days of the suppliers' invoice date.

Note 11.3

Amounts due to related parties are unsecured, bear no profit, have no fixed repayment terms and are authorised by the Group's management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

12 IJARA AND MURABAHA FINANCING

| | 2013 US\$ '000 | 2012 US\$ '000 |
|------------------------------------|---------------------------------|---------------------------------|
| Ijara payable | 2,947 | 2,947 |
| Murabaha payable | 37,010 | 36,321 |
| Total Ijara and Murabaha financing | 39,957 | 39,268 |

The Group has obtained Ijara and Murabaha financing to fund the acquisition of investments, purchase of properties and to meet working capital requirements. These liabilities bear market rates of profit and are repayable in accordance with the repayment terms agreed with respective banks.

The above financial facilities are secured against the following assets:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|---------------------------------|---------------------------------|
| Investment in real estate (note 9) | 40,090 | 57,287 |
| Trade receivables (note 6) | 15,125 | 15,125 |
| Investments (note 7) | 5,305 | 5,305 |
| Investment in a joint venture and associates (note 8) | - | 10,557 |
| | 60,520 | 88,274 |

13 SHARE CAPITAL

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|---------------------------------|---------------------------------|
| Authorised | | |
| 375,000,000 (31 December 2012: 375,000,000) ordinary shares of US\$0.40 each | 150,000 | 150,000 |
| Issued and fully paid-up | | |
| <u>Opening balance</u> | | |
| 286,511,225 (31 December 2012: 286,511,225) ordinary shares of US\$0.40 each | 114,604 | 114,604 |
| <u>Treasury shares</u> | | |
| Less: 1,627,825 (31 December 2012: 1,627,825) treasury shares of US\$0.40 each | (651) | (651) |
| <u>Closing balance</u> | | |
| 284,883,400 (31 December 2012: 284,883,400) ordinary shares of US\$ 0.40 each | 113,953 | 113,953 |

Treasury shares represent shares issued to Tameer for Private Management W.L.L., a subsidiary of the Company, for the employees' share option plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

13 SHARE CAPITAL (continued)

Additional information on shareholding pattern

Names and nationalities of the major shareholders and the number of shares they hold, without considering the treasury shares, are disclosed below (where their shareholding amounts to more than 5% or more of outstanding shares):

At 31 December 2013

| <i>Name</i> | <i>Incorporation</i> | <i>Number of shares</i> | <i>% holding</i> |
|-------------------------------|----------------------|-------------------------|------------------|
| Al-Muthana Investment Company | Kuwait | 47,448,384 | 16.56% |
| Dubai Islamic Bank | United Arab Emirates | 19,748,883 | 6.89% |
| Al-Watani Investment Company | Kuwait | 16,060,251 | 5.61% |
| Others | Various | 203,253,707 | 70.94% |
| | | <u>286,511,225</u> | <u>100%</u> |

At 31 December 2012

| <i>Name</i> | <i>Incorporation</i> | <i>Number of shares</i> | <i>% holding</i> |
|-------------------------------|----------------------|-------------------------|------------------|
| Al-Muthana Investment Company | Kuwait | 43,108,255 | 15.05% |
| Dubai Islamic Bank | United Arab Emirates | 19,748,883 | 6.89% |
| Others | Various | 223,654,087 | 78.06% |
| | | <u>286,511,225</u> | <u>100%</u> |

The Company has only one class of equity shares and the holders of these shares have equal voting rights. Further, all the shares issued are fully paid.

Distribution schedule of shares, setting out the number and percentage of holders is disclosed below:

At 31 December 2013

| <i>Categories:</i> | <i>No. of shares</i> | <i>No. of shareholders</i> | <i>% of total outstanding shares</i> |
|-------------------------|----------------------|----------------------------|--------------------------------------|
| Less than 1% | 127,961,403 | 948 | 44.66% |
| 1% up to less than 5% | 75,292,304 | 14 | 26.28% |
| 5% up to less than 10% | 35,809,134 | 2 | 12.50% |
| 10% up to less than 50% | 47,488,384 | 1 | 16.56% |
| | <u>286,551,225</u> | <u>965</u> | <u>100%</u> |

At 31 December 2012

| <i>Categories:</i> | <i>No. of shares</i> | <i>No. of shareholders</i> | <i>% of total outstanding shares</i> |
|-------------------------|----------------------|----------------------------|--------------------------------------|
| Less than 1% | 128,723,743 | 942 | 44.93% |
| 1% up to less than 5% | 94,930,344 | 17 | 33.13% |
| 5% up to less than 10% | 19,748,883 | 1 | 6.89% |
| 10% up to less than 50% | 43,108,255 | 1 | 15.05% |
| | <u>286,511,225</u> | <u>961</u> | <u>100%</u> |

At 31 December 2013, the Board of Directors collectively hold 2.52% of the shares of the total issued and fully paid-up share capital of the Company (31 December 2012: 2.52%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

13 SHARE CAPITAL (continued)**Additional information on shareholding pattern (continued)**

Details of shares owned by the directors of the Group are as follows:

| | <i>Number of shares</i> | |
|------------------------------------|-------------------------|-------------|
| | <i>2013</i> | <i>2012</i> |
| Dr. Mohammed Abdulla Fahad Al-Madi | 5,045,104 | 5,045,104 |
| Fareed Soud Al-Fozan | 962,650 | 962,650 |
| Samir Yaqoob Al-Nafisi | 474,723 | 474,723 |
| Jamal Abdul Rahman Al-Rowaiyeh | 230,238 | 230,238 |
| Ahmed Rashed Al-Qattan | 200,511 | 200,511 |
| Talal Khalid Al-Nesef | 94,160 | 94,160 |
| Mohammed Ebrahim Al-Nughaimish | 78,050 | 78,050 |
| Bashar Naser Al-Tuwaijri | 78,050 | 78,050 |
| Abdulrahman Yousif Fakhro | 49,530 | 49,530 |
| | 7,213,016 | 7,213,016 |

14 RESERVES**a. Statutory reserve**

In accordance with the Bahrain Commercial Companies Law and the Company's articles of association, 10% of the net profit for the year is required to be transferred to a statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of paid up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. As the Group has reported net losses during the years ended 31 December 2013 and 31 December 2012, no transfer was made to the statutory reserve.

b. Share option reserve

This represents the difference between the grant price and fair value of the Company's share options issued to the Group's employees in accordance with the Employee Share Option Plan ("ESOP") Scheme.

c. Treasury shares

This represents weighted average cost of own shares held in treasury and under the employee incentive scheme.

d. Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

15 INCOME FROM INVESTMENT IN REAL ESTATE

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|-------------------|-------------------|
| Reversal of excess accruals (note 15.1) | 6,012 | - |
| Property related facilities income | 455 | 901 |
| Realised gains on sale of investment in real estate | 431 | 1,506 |
| Rental income | 404 | 516 |
| Unrealised fair value losses on investment in real estate | (171) | (1,685) |
| Loss recognised on settlement of receivables (note 15.2) | (1,474) | - |
| | <u>5,657</u> | <u>1,238</u> |

Note 15.1

During the year, the Group reversed excess accruals amounting to US\$ 6 million relating to completed and sold projects. A detailed exercise was undertaken by the Group to assess the likelihood of payments against these accruals. It was concluded that as the projects are completed and sold and no further work is required on these projects, the accruals are no longer required.

Note 15.2

During the year, an investor who purchased 5 plots of land in prior years, agreed to settle his outstanding balance by returning 3 plots of land. This resulted in reduction of trade receivables by US\$ 5 million, loss on settlement of US\$ 1.5 million and recovery of provision amounting to US\$ 2 million against the receivable balance.

16 INCOME FROM INVESTMENTS

| | 2013 US\$ '000 | 2012 US\$ '000 |
|------------------|-------------------|-------------------|
| Dividend income | 528 | 529 |
| Murabaha profits | 352 | 248 |
| Gain | 45 | - |
| | <u>925</u> | <u>777</u> |

17 INCOME FROM ADVISORY SERVICES

Income from advisory fees mainly represent fees earned by the Group with respect to project structuring for related parties.

18 NET INCOME FROM CONSTRUCTION CONTRACTS

| | 2013 US\$ '000 | 2012 US\$ '000 |
|-----------------|-------------------|-------------------|
| Contract income | 13,185 | 15,402 |
| Contract costs | (12,421) | (12,235) |
| | <u>764</u> | <u>3,167</u> |

The contract costs include depreciation amounting to US\$ 239 thousand (2012: US\$ 252 thousand) (note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

19 STAFF COSTS

| | US\$ '000 | US\$ '000 |
|--|--------------|--------------|
| Salaries and benefits | 4,247 | 4,262 |
| Other staff expenses | 338 | 1,538 |
| Reversal of ESOP scheme charge (note 19.1) | - | (537) |
| | 4,585 | 5,263 |

Note 19.1

During the year ended 31 December 2012, the Group's management reviewed the vesting condition requirements of the Group's employee share option scheme ("ESOP") and revised the number of equity instruments expected to vest, based on the best probability estimates of the Group's employees meeting the service and non-market based performance condition requirements of the ESOP Scheme, revisions in the probability estimates resulted in a reversal of US\$ 404 thousand. Further, reversal of US\$ 133 thousand was recognised due to forfeiture of share awards on non-satisfaction of service conditions.

Staff costs include expenses of US\$ 7 thousand relating to equity settled share-based payment transactions for the year ended 31 December 2013 (31 December 2012: US\$ 91 thousand).

20 GENERAL AND ADMINISTRATIVE EXPENSES

| | 2013 US\$ '000 | 2012 US\$ '000 |
|------------------------------------|-------------------|-------------------|
| Rent, rates and taxes | 1,057 | 1,329 |
| Legal and professional consultancy | 724 | 789 |
| Advertising and marketing | 358 | 302 |
| Board member expenses | 354 | 460 |
| Other expenses | 600 | 1,009 |
| | 3,093 | 3,889 |

21 PROVISION - NET

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|-------------------|-------------------|
| Provision for case compensation (note 8.1) | 3,288 | - |
| Provision for impaired receivables (note 6) | 1,888 | 1,061 |
| Provision write back against receivables (note 6) | (1,990) | - |
| Provision for impaired investments - net (note 7) | 1,743 | 2,274 |
| | 4,929 | 3,335 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

22 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|-------------------|-------------------|
| Loss attributable to the equity shareholders of the parent for the year | <u>(4,943)</u> | <u>(9,024)</u> |
| Weighted average number of shares outstanding at the beginning and end of the year | <u>284,883</u> | <u>284,883</u> |
| Earnings per share - US cents | <u>(1.74)</u> | <u>(3.17)</u> |

The Company does not have any potentially dilutive ordinary shares, hence the diluted loss per share and basic loss per share are identical.

23 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group and Shari'a Supervisory Board members and external auditors.

Terms and conditions of transactions with related parties

The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at terms and conditions approved by the Board of Directors. The above mentioned transactions and balances arose from the ordinary course of business of the Group. Outstanding balances at the year end are unsecured. The Group did not provide or receive any guarantee for any related party payables or receivables. All related party exposures are performing and are free of any provision for possible credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

23 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

[illegible]

The related party transactions included in the consolidated financial statements are as follows:

| | 31 December 2013 | | | | | | 31 December 2012 | | | | | |
|--|--|-----------|-----------|---|-----------|-----------|------------------------------|-----------|-----------|--|-----------|-----------------|
| | Key management personnel/ Shari'a board members/ external auditors | | | Significant shareholders / entities in which directors are interested | | | Associates and joint venture | | | Key management personnel/ Shari'a board members/ external auditors | | |
| | Shareholders US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | Total US\$ '000 |
| Income | | | | | | | | | | | | |
| Income from advisory services | - | 814 | 56 | 4,381 | 5,251 | - | 422 | 12 | 1,386 | 1,820 | | 1,820 |
| Net income from construction contracts | - | (23) | 27 | 1,138 | 1,142 | - | 670 | (43) | 1,011 | 1,638 | | 1,638 |
| Other income | - | 260 | - | 48 | 308 | - | 162 | - | - | 162 | | 162 |
| | - | 1,051 | 83 | 5,567 | 6,701 | - | 1,254 | (31) | 2,397 | 3,620 | | 3,620 |
| Expenses | | | | | | | | | | | | |
| Staff costs | 318 | - | 2,604 | - | 2,922 | 504 | 30 | 2,875 | 234 | 3,643 | | 3,643 |
| General and administrative expenses | 83 | 78 | 194 | 48 | 403 | 103 | 30 | 200 | 234 | 567 | | 567 |
| | 401 | 78 | 2,798 | 48 | 3,325 | 504 | 60 | 3,075 | 468 | 4,210 | | 4,210 |
| (Loss) / income for the year | (83) | 973 | (111) | 5,519 | 6,298 | (504) | 1,224 | (231) | 2,163 | 3,053 | | 3,053 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

23 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|-----------------------------|-------------------|-------------------|
| Salaries and other benefits | 2,438 | 2,530 |
| End of service benefits | 166 | 345 |
| | 2,604 | 2,875 |

24 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. For management purposes, the Group is organised into four major business segments.

The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in note 3 to the consolidated financial statements. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment information is disclosed as follows:

| | 31 December 2013 | | | | | Total US\$ '000 |
|---|--|--|--|---|---------------------------|--------------------|
| | Investment and related services US\$ '000 | Construction Contracts US\$ '000 | Development and sale of industrial plots US\$ '000 | Property and facility management services US\$ '000 | Eliminations US\$ '000 | |
| Net revenues from | | | | | | |
| external customers | 5,006 | 765 | 4,992 | 983 | - | 11,746 |
| Inter-segment transactions | - | 192 | 28 | 81 | (301) | - |
| Income from investments | 614 | 299 | 10 | 2 | - | 925 |
| Share of (losses)/profits from investment in a joint venture and associates (Note 6) | (966) | - | 65 | - | - | (901) |
| Other income | 145 | 92 | - | - | - | 237 |
| Total revenue | 4,799 | 1,348 | 5,095 | 1,066 | (301) | 12,007 |
| Segment profit | (11,726) | 446 | 6,305 | 224 | (192) | (4,943) |
| Segment assets | 273,161 | 30,310 | 65,058 | 3,174 | (78,594) | 293,109 |
| Segment liabilities | 65,377 | 9,065 | 57,519 | 1,819 | (6,956) | 126,824 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

24 SEGMENTAL INFORMATION (continued)

| | 31 December 2012 | | | | | Total US\$ '000 |
|---|--|--|--|---|---------------------------|--------------------|
| | Investment and related services US\$ '000 | Construction Contracts US\$ '000 | Development and sale of industrial plots US\$ '000 | Property and facility management services US\$ '000 | Eliminations US\$ '000 | |
| Net revenues from | | | | | | |
| external customers | 396 | 3,167 | 2,351 | 820 | - | 6,734 |
| Inter-segment transactions | - | 381 | - | 148 | (529) | - |
| Income from investments | 567 | 196 | 11 | 3 | - | 777 |
| Share of (losses)/profits from investment in a joint venture and associates (Note 6) | 722 | - | 161 | - | - | 883 |
| Other income | 68 | 9 | 106 | - | - | 183 |
| Total revenue | 1,753 | 3,753 | 2,629 | 971 | (529) | 8,577 |
| Segment profit | (11,599) | 1,942 | 774 | 240 | (381) | (9,024) |
| Segment assets | 273,640 | 31,843 | 63,266 | 2,107 | (78,315) | 292,541 |
| Segment liabilities | 59,126 | 8,604 | 62,032 | 976 | (9,418) | 121,320 |

25 CONTINGENCIES AND COMMITMENTS

Credit-related commitments include commitments to extend guarantees and acceptances which are designed to meet the requirements of the Group's customers. Guarantees and acceptances commit the Group to make payments to third parties on behalf of customers in certain circumstances.

The Group has the following credit related commitments:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|------------|-------------------|-------------------|
| Guarantees | 17,992 | 9,069 |

The Group has fully provided for against the guarantee amounting to US\$ 3.4 million (31 December 2012: US\$ 3.4 million).

The Group has the following operating lease commitments:

| | 2013 US\$ '000 | 2012 US\$ '000 |
|---|-------------------|-------------------|
| Future minimum lease payments: | | |
| Within one year | 755 | 961 |
| After one year but not more than five years | 2,311 | 2,857 |
| More than five years | 50,105 | 50,105 |
| Total | 53,171 | 53,923 |

26 FIDUCIARY ASSETS

The assets managed on behalf of customers, to which the Group does not have any legal title are not included in the consolidated statement of financial position. At 31 December 2013, the carrying value of such assets is US\$ 282 million (31 December 2012: US\$ 293 million).

27 RISK MANAGEMENT

Risk is defined as the combination of severity and frequency of potential loss over a given time horizon and is inherent in the Group's activities. Risk can be expressed in the dimensions of potential severity of loss (magnitude of impact) and potential loss frequency (likelihood of occurrence). Risk management is the process by which the Group identifies key risks, sets consistent understandable risk measures, chooses which risks to reduce, which to increase and by what means, and establishes procedures to monitor the resulting risk position. Risk management is the discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that optimum value is created for the shareholders through an optimum return on equity by an appropriate trade-off between risk and return.

Effective risk management is the cornerstone of capital structure. The vision of risk management is to address all aspects of risk which the Group may be exposed to. The Group's risk function is independent of lines of business and the Head of Risk is appointed by the Board Risk Committee, who then report to the Board of Directors. The key role of the risk management function is defining, identifying and reducing risks, and being independent and objective.

The Group has exposure to risks, which include credit, market, liquidity, reputation, compliance and operational risks. Market risk includes currency, equity price and profit rate risk. Taking risk is core to the financial business. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Group's financial performance.

Risk governance

The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework and reviewing its risk management policies and procedures. The risks both at portfolio and transactional levels are managed and controlled through the Board Risk Committee.

a) Credit risk

Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms. The goal of credit risk management is to maximize the Group's risk-adjusted rate of return by maintaining credit exposures within acceptable parameters. The Group has well-defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all the Group's activities.

i) *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

The Group's maximum exposure to on-balance sheet credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure, is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

The table shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements, but after impairment provisions, where applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

27 RISK MANAGEMENT (continued)

a) Credit risk (continued)

i) *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)*

| | Gross maximum exposure 2013 US\$ '000 | Gross maximum exposure 2012 US\$ '000 |
|--|---|---|
| Mudaraba and murabaha financing | - | 3,760 |
| Trade and other receivables | 65,730 | 73,348 |
| | 65,730 | 77,108 |
| Commitments and contingent liabilities | 17,992 | 9,069 |
| Total | 83,722 | 86,177 |

ii) *Aging of past due but not impaired facilities*

The following table summarises the aging of past due but not impaired assets as of:

| | 31 December 2013 | | | | |
|-----------------------------|------------------|---------------|------------|----------------------|---------------|
| | 3-6 months | 6-12 months | 1-3 years | 3 years and above | Total |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| Trade and other receivables | 4,125 | 21,813 | 782 | 59 | 26,779 |
| | 4,125 | 21,813 | 782 | 59 | 26,779 |
| | 31 December 2012 | | | | |
| | 3-6 Months | 6-12 Months | 1-3 Years | 3 Years and Above | Total |
| | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| Trade and other receivables | 4,244 | 27,933 | 241 | - | 32,418 |
| | 4,244 | 27,933 | 241 | - | 32,418 |

The Group's trade and other receivable amounting to US\$ 24.08 million (31 December 2012: US\$ 24.18 million) are secured against lease hold rights over the underlying land.

Trade and other receivables amounting to US\$ 11.03 million (31 December 2012: US\$ 13.02 million) have been classified as individually impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

27 RISK MANAGEMENT (continued)**a) Credit risk (continued)****iii) Concentration risk**

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The Group's exposure analysed on geographic regions and industry sectors is as follows:

| | 31 December 2013 | | | 31 December 2012 | | |
|---------------------------|-------------------|------------------------|--------------------------------------|-------------------|------------------------|--------------------------------------|
| | Assets BD '000 | Liabilities BD '000 | Contingent liabilities BD '000 | Assets BD '000 | Liabilities BD '000 | Contingent liabilities BD '000 |
| Geographic region: | | | | | | |
| Kingdom of Bahrain | 246,317 | 116,893 | 17,992 | 252,882 | 121,320 | 9,069 |
| Other GCC countries | 46,792 | 9,931 | - | 39,159 | - | - |
| Rest of the world | - | - | - | 500 | - | - |
| | 293,109 | 126,824 | 17,992 | 292,541 | 121,320 | 9,069 |
| | | | | | | |
| | 31 December 2013 | | | 31 December 2012 | | |
| | Assets BD '000 | Liabilities BD '000 | Contingent liabilities BD '000 | Assets BD '000 | Liabilities BD '000 | Contingent liabilities BD '000 |
| Industry sector: | | | | | | |
| Real estate | 194,009 | 118,963 | 17,992 | 192,876 | 117,131 | 9,069 |
| Non real estate | 99,100 | 7,861 | - | 99,665 | 4,189 | - |
| | 293,109 | 126,824 | 17,992 | 292,541 | 121,320 | 9,069 |

b) Market risk

Market risk arises from fluctuations in profit rates, foreign exchange rates and equity prices. Market risk is the risk that changes in market risk factors, such as currency risk, profit rates and equity prices will effect the Group's income or the value of its holding of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Profit rate risk

Profit risk is the risk that the Group's profitability or fair value of its financial instruments will be adversely affected by the changes in profit rates. The Group's assets and liabilities are not considered by management to be sensitive to profit rate risk.

ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views the United States Dollar as its functional currency. As at 31 December 2013 and 2012, the Group had net foreign currency exposure in respect of Bahraini Dinars, Saudi Riyals, Kuwaiti Dinars and United Arab Emirates Dirhams. Except for Kuwaiti Dinars, the currencies are pegged to the United States Dollar and thus are considered not to represent significant currency risk. The Group's exposure to Kuwaiti Dinars is considered minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

27 RISK MANAGEMENT (continued)**b) Market risk (continued)****iii) Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. As the Group has no quoted equity investments, the Group is not exposed to this risk. The Group has unquoted investments carried at cost less provision for impairment where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in owners' equity.

c) Liquidity risk

Liquidity risk is the potential inability of the Group to meet cash flows of its maturing obligations to a counterparty. Liquidity risk management seeks to ensure that the Group has the ability, under varying scenarios, to fund increases in assets and meet maturing obligations as they arise. Management of the Group is responsible for its liquidity management.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2013 based on expected periods to cash conversion from the consolidated statement of financial position date:

| | <i>Up to 1 Month</i> | <i>1 to 3 months</i> | <i>3 to 6 months</i> | <i>6 months to 1 year</i> | <i>1 to 5 years</i> | <i>5 to 10 years</i> | <i>Over 10 years</i> | <i>No fixed maturity</i> | <i>Total</i> |
|---|--------------------------|--------------------------|--------------------------|-------------------------------|-------------------------|--------------------------|--------------------------|------------------------------|------------------|
| | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents | 8,586 | 8,591 | - | - | - | - | - | - | 17,177 |
| Trade and other receivables | - | - | - | 2,933 | 57,497 | - | - | - | 60,430 |
| Investments | - | - | - | - | 23,430 | - | - | - | 23,430 |
| Investment in a joint venture/associates | - | - | - | - | 98,245 | - | - | - | 98,245 |
| Investment in real estate | - | - | - | - | 81,114 | - | - | - | 81,114 |
| Properties under development | - | - | - | - | 5,638 | - | - | - | 5,638 |
| Property, plant and equipment | - | - | - | - | - | - | - | 7,075 | 7,075 |
| Total assets | 8,586 | 8,591 | - | 2,933 | 265,924 | - | - | 7,075 | 293,109 |
| LIABILITIES | | | | | | | | | |
| Trade and other payables | - | 2,898 | 2,898 | 4,134 | 26,832 | - | 50,105 | - | 86,867 |
| Ijara and murabaha financing | 688 | 2,500 | 13,557 | 19,896 | 3,316 | - | - | - | 39,957 |
| Total liabilities | 688 | 5,398 | 16,455 | 24,030 | 30,148 | - | 50,105 | - | 126,824 |
| Net liquidity gap | 7,898 | 3,193 | (16,455) | (21,097) | 235,776 | - | (50,105) | 7,075 | 166,285 |
| Cumulative liquidity gap | 7,898 | 11,091 | (5,364) | (26,461) | 209,315 | 209,315 | 159,210 | 166,285 | |
| Contingencies and commitments | - | - | - | - | 17,992 | - | - | - | 17,992 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

27 RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2012 based on expected periods to cash conversion from the consolidated statement of financial position date:

| | <i>Up to 1 Month</i> | <i>1 to 3 months</i> | <i>3 to 6 months</i> | <i>6 months to 1 year</i> | <i>1 to 5 years</i> | <i>5 to 10 years</i> | <i>Over 10 years</i> | <i>No fixed maturity</i> | <i>Total</i> |
|---|--------------------------|--------------------------|--------------------------|-------------------------------|-------------------------|--------------------------|--------------------------|------------------------------|------------------|
| | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> | <i>US\$ '000</i> |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents | 5,490 | 619 | - | - | - | - | - | - | 6,109 |
| Mudaraba and murabaha financing | - | 3,760 | - | - | - | - | - | - | 3,760 |
| Trade and other receivables | - | - | - | - | 67,946 | - | - | - | 67,946 |
| Investments | - | - | - | - | 26,611 | - | - | - | 26,611 |
| Investment in a joint venture/associates | - | - | - | - | 90,811 | - | - | - | 90,811 |
| Investment in real estate | - | - | - | - | 89,598 | - | - | - | 89,598 |
| Property, plant and equipment | - | - | - | - | - | - | - | 7,706 | 7,706 |
| Total assets | 5,490 | 4,379 | - | - | 274,966 | - | - | 7,706 | 292,541 |
| LIABILITIES | | | | | | | | | |
| Trade and other payables | - | 9,252 | - | 22,695 | - | - | 50,105 | - | 82,052 |
| Ijara and murabaha financing | - | - | - | 11,937 | 27,331 | - | - | - | 39,268 |
| Total liabilities | - | 9,252 | - | 34,632 | 27,331 | - | 50,105 | - | 121,320 |
| Net liquidity gap | 5,490 | (4,873) | - | (34,632) | 247,635 | - | (50,105) | 7,706 | 171,221 |
| Cumulative liquidity gap | 5,490 | 617 | 617 | (34,015) | 213,620 | 213,620 | 163,515 | 171,221 | |
| Contingencies and commitments | - | - | - | - | 9,069 | - | - | - | 9,069 |

27 RISK MANAGEMENT (continued)

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

e) Other risks

Regulatory risk

Regulatory risk is defined as the risk of non-compliance with regulatory and legal requirements in the Kingdom of Bahrain and the State of Kuwait. The Group's Compliance Department is currently responsible for ensuring all regulations are adhered to.

Legal risk

Legal risk is defined as the risk of unexpected losses from transactions and contracts not being enforceable under applicable laws or from unsound documentation. The Group deals with several external law firms to support it in managing the legal risk.

Reputation risk

Regulatory risk is defined as the risk that negative perception regarding the Group's business practices or internal controls, whether true or not, will cause a decline in the Group's investor base and lead to costly litigations which could have an adverse impact on the liquidity of the Group. The Board of Directors examines the issues that are considered to have reputation repercussions for the Group and issues directives to address these.

28 SOCIAL RESPONSIBILITY

The Group intends to discharge its social responsibilities through donations to charitable causes and organisations.

29 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect net income, total assets, total liabilities or owners' equity of the Group as previously reported.