

Annual Report
2007



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His Majesty
King Hamad Bin Isa Al Khalifa
King of Bahrain



His Highness
Shaikh Khalifa Bin Salman Al Khalifa
The Prime Minister



His Highness
Shaikh Salman Bin Hamad Al Khalifa
The Crown Prince Commander-in-Chief of
the Bahrain Defense Force



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Board of Directors



Mohammed Ibrahim Al Farhan
Chairman



Abdulghaffar Abdulrahim Al-Kooheji
Vice Chairman



Hamad Abdulaziz Al Shaya
Board Member



Mohammad Ahmad Al Qassimi
Board Member



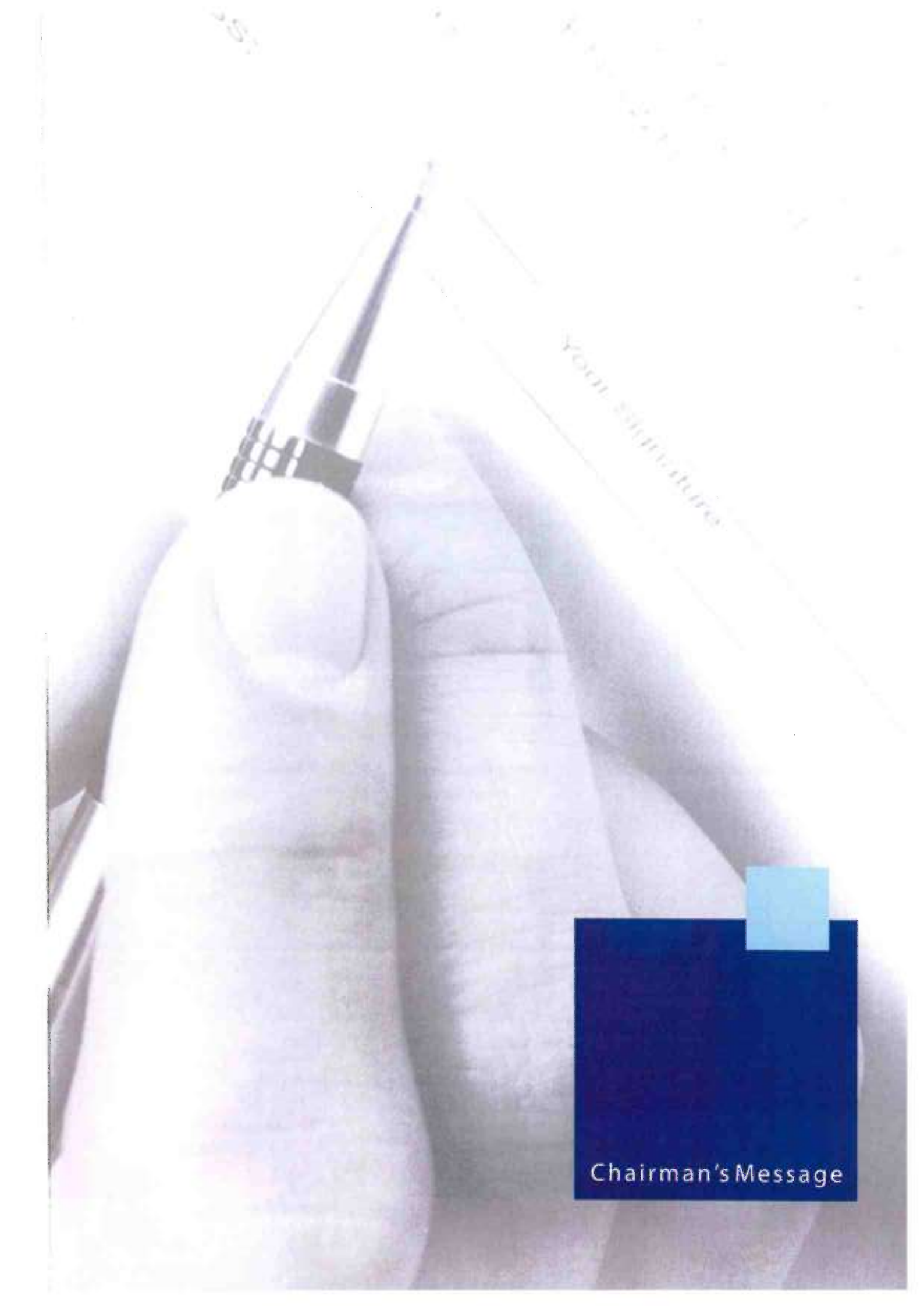
Hadeel Abdulatif Binnaji
Board Member



Adel Jassim Al Nijadah
Board Member



Ahmad Saoud Al Sumait
Board Member



Chairman's Message

Dear Shareholders:

It gives me great pleasure to present to you First Real Estate Company's Annual Report with the Financial Statement for the fiscal year ended December 31st, 2007.

First Real Estate Company, B.S.C. was established in 2002 between two major partners with a paid-up capital of BD 500,000. In 2005, the Company underwent a restructuring process, which resulted in increasing the capital to BD 30 million, by adding some new assets and allowing entry of new shareholders to form a closed shareholding company. The capital increase was successfully covered by an effective contribution from prominent Kuwaiti companies and a number of strategic investors from Bahrain, Saudi Arabia and United Emirates. In March 2007, the Extra-Ordinary General Assembly approved a capital increase of BD1,800,000, through issuing stock dividends of 6% to the shareholders, thus increasing the Company's paid up capital to BD 31,800,000.

At the Extraordinary General Assembly Meeting held in November 2007, the shareholders unanimously approved changing the legal structure of the Company from a Closed Shareholding Company to a Public Shareholding Company, after obtaining the necessary approvals from the concerned governmental authorities, which will enable the Company to enlist in Bahrain Stock Exchange.

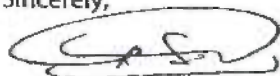
Since inception, the Company was keen to acquire and develop residential and commercial real estate for investment purposes, to ensure ongoing returns for the shareholders. The Company now owns several income generating properties, in addition to strategically located land at Seef, Juffair, and Hidd areas. Furthermore, in the year 2007 the Company sold one property in Hoorah, and other properties at Juffair, and acquired two income generating properties in Juffair. In addition, the company bought a plot in Hidd industrial area with in the Muharaq District and also entered into a long term lease agreement with Bahrain Investment Wharf (BIW) for the lease of two strategically located sea front plots. Construction has commenced on the "The 100 Residence Tower" at Juffair, which is expected to be completed by the 2nd quarter of 2009. In the 3rd quarter of 2007, the Company, through implementing its ambitious real estate growth policy of expanding to the rest of the neighboring GCC countries, purchased a labor accommodation camp in UAE, as a joint-venture acquisition with Injazzat Real Estate Development Co., one of the Company's major shareholders.

The financials reflect an asset growth from BD 38.6 million at the end of 2006, to 66.9 million in 2007, showing an increase of 73%. Shareholders' equity grew from BD 38.4 million in 2006 to BD 47.6 million in 2007, up by 24%. Additionally, revenues went up from BD 8.5 million at the end of 2006 to BD 10.3 million in 2007, marking an increase of 21%. Meanwhile, total expenses rose to BD 1.13 million at the end of 2007 compared to BD 0.568 million in 2006, up by 99% bringing net profit up to BD 9.17 million as at the end of 2007 compared to BD 7.93 million in 2006, up by 15.6%. These remarkable results are due in part to the increase in value of the Company's strategically located properties and the high level of occupancy of the income generating assets in addition to the disposal of several properties.

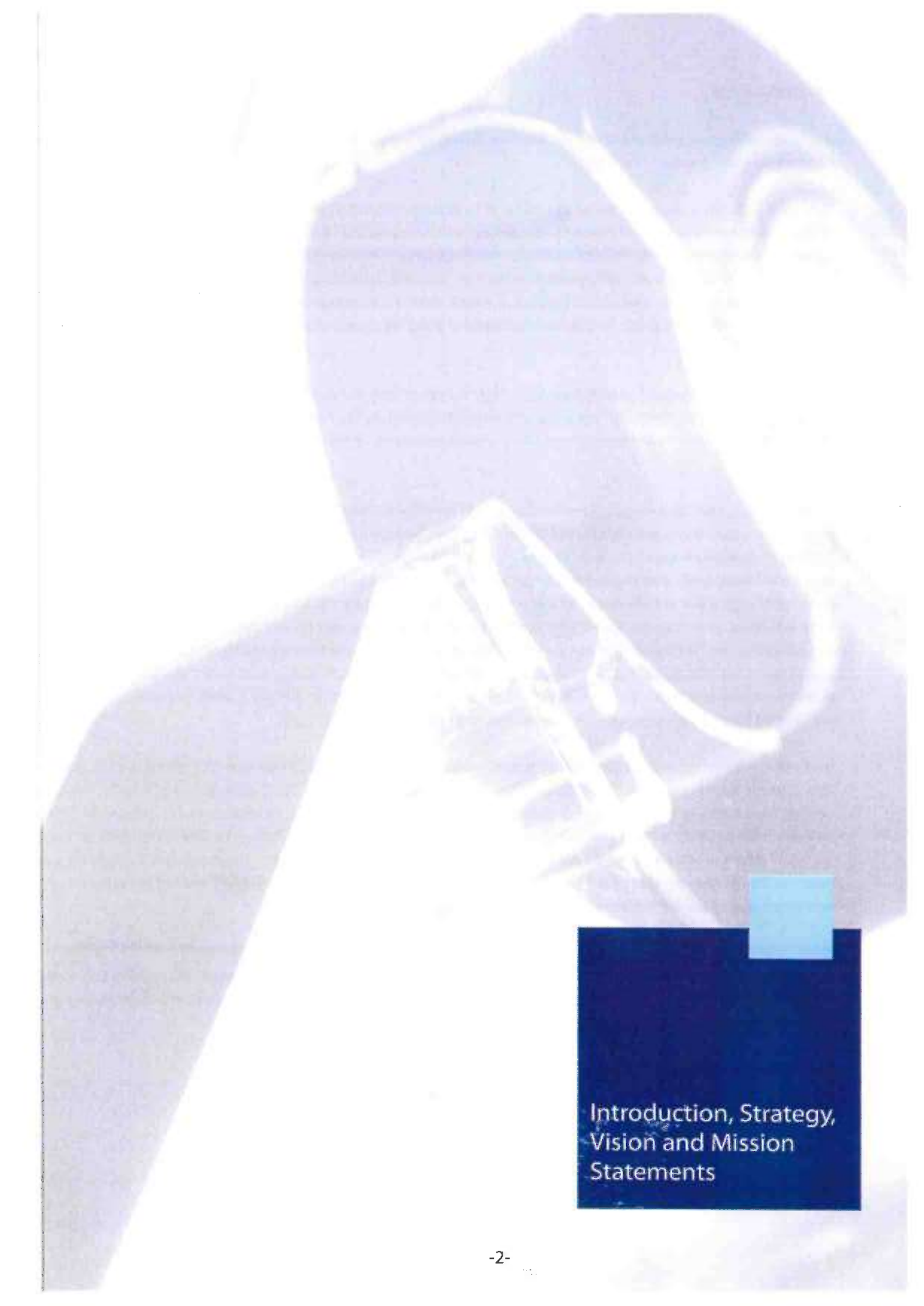
In conclusion, I would like to extend my sincere gratitude and appreciation to the board members, the Bahraini authorities and to the Company's shareholders for their continued support and valued trust. I also express my appreciation to the management and staff for the effort and dedication exerted by each and every one of them towards enhanced success and achievement of the Company's future objectives.

May God, The Almighty, guide us in achieving success for the Company and its shareholders.

Sincerely,



Mohammed Al Farhan
Chairman



Introduction, Strategy,
Vision and Mission
Statements

Introduction

First Real Estate Company was founded and restructured to achieve sustainable growth strategies and a prominent reputation within the local real estate market while offering rewarding opportunities for its investors, management and staff. The Company's professional and experienced management team has worked ardently throughout 2007 at procuring a broader field of investments by expanding its focus beyond the residential market to the commercial market.

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

Strategy

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

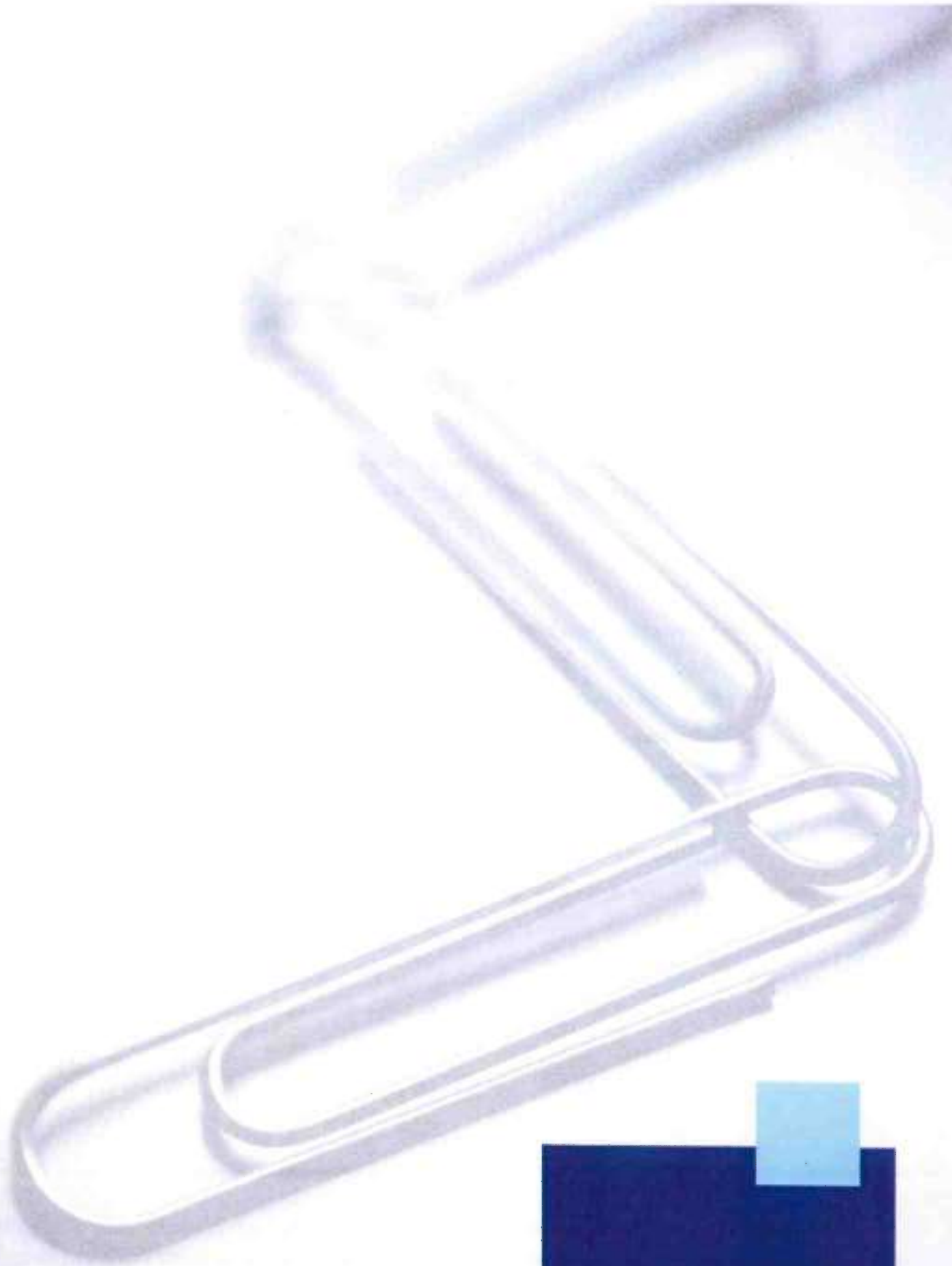
- Uncover hidden opportunities in the real estate sector.
- Acquire new properties with appreciation potential.
- Land trading and development.
- Increase and sustain profitability of existing properties through the Company's management of properties.
- Having well defined exit strategies for each property.

Vision Statement

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

Mission Statement

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



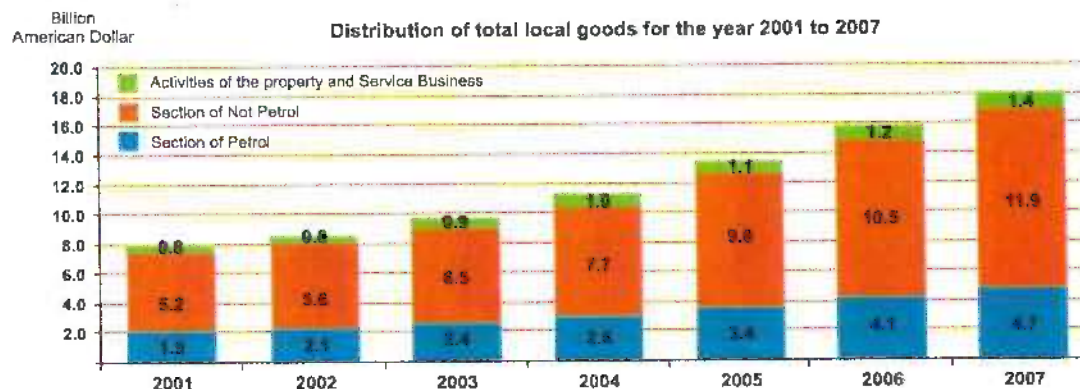
Bahrain Real Estate &
Economic Market
Overview

Local Economy Performance

Bahrain's nominal GDP rose twofold over four years, up from US\$ 9.7 billion in 2003 to about US\$ 18 billion in 2007, according to the Economist Intelligence Unit Country Report of September 2007. While the nominal GDP during the period realized a two-digit growth rate, the actual growth also remained high, ranging between the lowest level of 6.4% in 2004 to the highest level of 7.8% in 2005. It realized an actual growth of about 6.6% in 2007. Because the population growth rates were below the economic growth rates, the GDP per capita rose from about US\$ 13.9 thousand in 2003 to about US\$ 22.5 thousand in 2007.

Although the oil production rates from Abu Safa field were stable at around 180 thousand bpd, the large increase in prices continued to maintain its high contribution to GDP, amounting to about 25.2%. The sector's strength was reflected in most macro economic indicators, where the current account surplus rose from US\$ 201 million in 2003 to about US\$ 1,975 million in 2007. The actual budget surplus figures for 2007 have not been published as yet, but it is expected to slightly exceed the 2006 surplus of about US\$ 748 million, accounting for about 4.9% of GDP volume.

Distribution of GDP 2001-2007



Source: EIU

The inflation rates rose from 1.6% in 2003 to about 3.5% in 2007. Inflation pressures are expected to rise in the future, driven by a weakening of both the US dollar and the Bahraini Dinar against other major currencies, as well as the global high inflation rates, which will also increase the imported inflation rates. It will be also supported by expansion in the monetary policy, which is influenced by the US Federal Reserve, despite the difference in the status of the two economies, and also by expansion in the financial policy through the approval of the salary increase for the government staff or the requirements of the infrastructure expenditures.

Bahrain Real Estate & Economic Market Overview

The Economist anticipates that the oil prices will drop in 2008 and 2009, thereby reducing Bahrain's GDP to 6.2% and 5.9% respectively which are still high rates. The current account surplus will drop from about US\$ 2 billion in 2007 to about US\$ 1.7 billion in 2008, and about US\$ 1.3 billion in 2009, which are still high rates as well. The reduced heat in the economy would result in reducing the inflation pressures, leading to stable inflation rates of 3.6% in 2008, dropping to 3.1% in 2009, although this would partly depend on the performance of the American economy.

In summary, it can be said that the Bahraini economy has witnessed a period of high growth, which seems will extend until the end of the current decade, greatly driven by the strong oil market and, on the other hand, by the openness to direct foreign investments and also by increased spending on the completion of infrastructures. All of these factors are expected to continue for the foreseeable future.

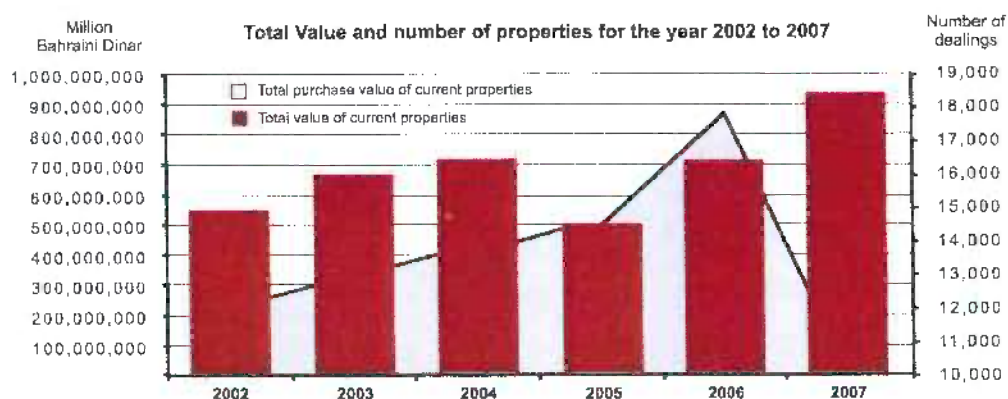
Performance of the Local Real Estate Market

According to the Central Bank of Bahrain, the real estate activities and business services sector contributed with about 10.9% of GDP in 2006. In fact, its indirect contribution was no less important than its direct contribution. The land granted by the Bahraini government, at subsidized prices, to interested investors in the real estate and other sectors are included in the components of any project, thereby improving its economies. They also represent a major factor in attracting direct foreign investment to Bahrain.

With the increasing economic growth rates and living costs, Bahrain has become a construction workshop. This leap, however, has not been accompanied by a significant increase in the building licenses which remained in the range of 10-11 thousand licenses for 2005 and 2006, and will be within the same limits when the official figures for 2007 are published. However, the volume of licensed projects has become very large, some of which is as large as a small city.

Driven by its activity, the real estate market liquidity doubled. The market trading in 2004 stood at about BD 431 million. In 2006 trading rose to about BD 876 million and to about BD 1357 million in 2007, which is slightly greater than three times the 2004 level. Despite this high increase in liquidity, the number of real estate deals rose by much lower rates, amounting to about 16.5 thousand deals in 2004 and slightly decreased by about 41 deals in 2006, compared to 2004 deals, and increased to about 18.5 thousand deals in 2007. It is true that the relatively moderate increase in the number of deals, which was not proportionate to the increase in the value of trading, partly reflects the increase in prices, but it also reflects a transition to purchasing high value and income generating real estate, that is a transition to investment and commercial real estate trading, at the expense of private housing.

Total values and numbers of real estate dealing (2002-2007)



With the anticipated strong economic performance and the positive historical course of the Bahraini real estate market, it is expected that the real estate market will maintain the same or even better context. It is worth noting that First Real Estate Co. was a pioneer in the institutional real estate business in Bahrain and has been coping with all the details of these positive developments, benefiting from this previous expertise in continuing to invest in a promising market.

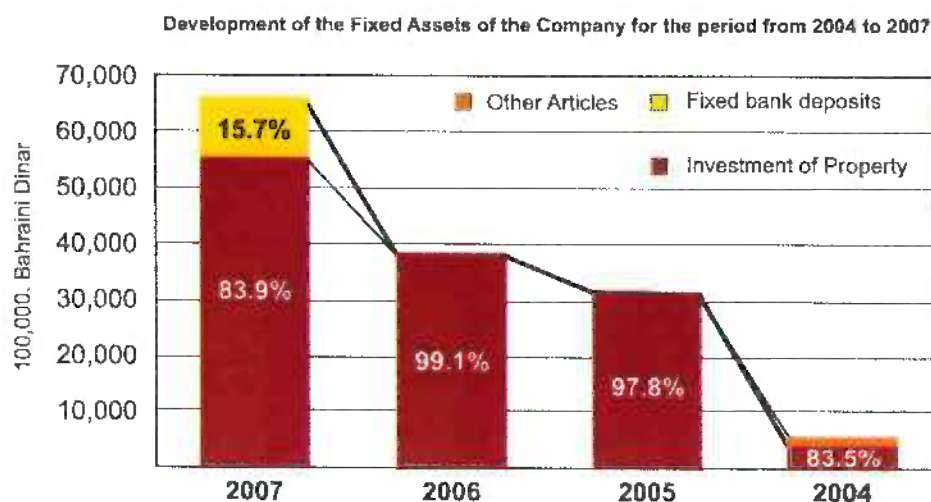
Financial Analysis

The Financial Position

The Company's strategy for purchase, acquisition and development of income generating residential and commercial real estate helped ensure continued realization of good returns to shareholders. The Company's positive financial performance continued for the sixth year from inception, backed by an improved favorable performance of the local real estate market and the selection of the promising opportunities over the past few years.

The Company's assets grew by about 73% in 2007 to approximately BD 66.9 million. The asset structure changed from the past two years (2005-2006), where the real estate investment item counts for most assets with about BD 55.9 million or 83.5% of the Company's total assets from about BD 38.3 million or 99.1% of the Company's assets in 2006. The value of this item rose after the Company purchased a plot of land in Hidd area in Muharraq, signed a long term lease contract with respect to two plots of land with strategic locations overlooking the sea in Bahrain Investment Wharf and purchased two real estate properties in Juffair area. The deposits with banks amounted to about BD 10.5 million or 15.6% of the total assets compared to about 0.5% in 2006. The remaining assets (receivable rent, other debtors and dues on related parties, furniture and computer) amounted to about BD 564.8 thousand or 0.8% of the total assets compared to about BD 155.9 thousand in 2006.

Development of FREC assets over 2004-2007



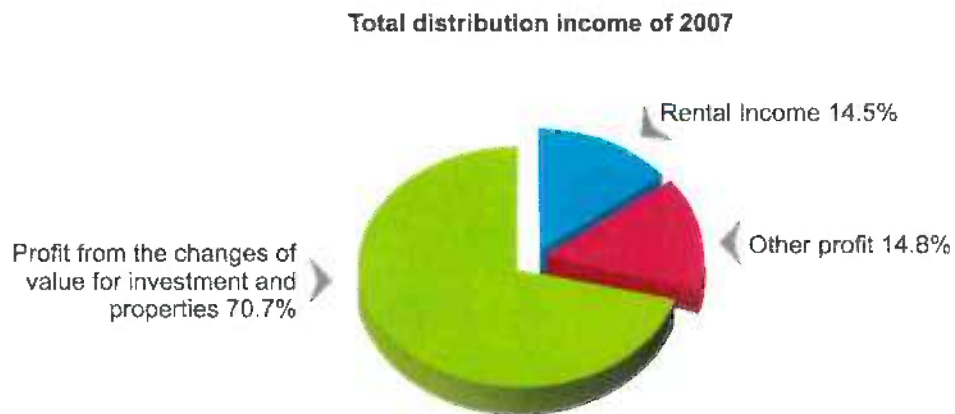
In implementing its expansion strategy, the Company relied on external financing resources. Liabilities rose by about BD 19 million to about BD 19.3 million at the end of 2007, accounting for about 28.9% of total assets. Long term loans represent most of the liabilities, with about 67.3%. This year, it borrowed about BD 13 million to finance its real estate investments, both present and future projects. The loan is payable at the end of 2011. Short term liabilities represent about 32.7% of total liabilities. The shareholders' equity rose by about BD 9.2 million through distribution of bonus shares of about 6.0% and carrying forward the profits which amounted to about BD 12.8 million, as at the end of 2007.

The Financial Performance:

The Kingdom of Bahrain's economy, in general, and the real estate market, in particular, was good in 2007. The company realized an increase in gross revenue by about 21.2% compared to 2006 to about BD 10.3 million compared to about BD 8.5 million in 2006.

The Company's revenue included revenue from rent and revenues from the sale of investment real estate and other transactions. The rent revenue realized about BD 1.49 million, slightly down by about 0.5%. Expenditures amounted to about BD 337.9 million, down by about 21.4%, pushing the total profits to about 77.4% in 2007 compared to about 71.4% in 2006. Rent revenue represented about 14.5% of the total revenue, approximately 17.7% of the total revenues in 2006. Profit from change in the fair value of real estate investments realized about 70.7% of the revenue, approximately 82.2% of total revenue in 2006. The Company also realized other profits of about BD 1.4 million from the sale of an investment real estate and about BD 64.9 thousand from interest revenue. The following chart shows the composition of the Company's revenue:

Distribution of the sources of income 2007

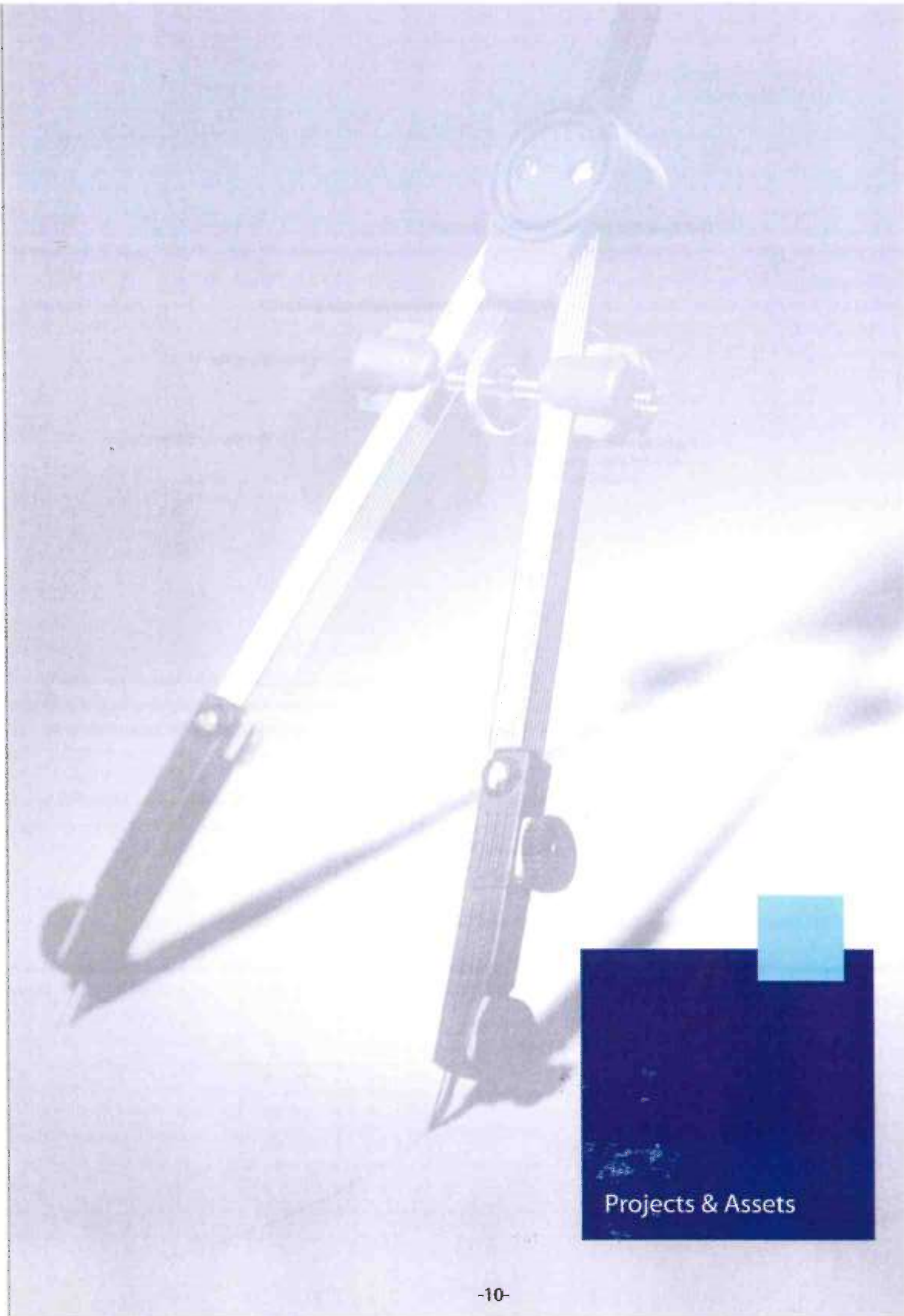


The Company's total expenses in 2007 rose by about BD 562.3 thousand, from BD 568 thousand in 2006 up to BD 1.130 million in 2007. The administrative expenses took the largest part of the increase, accounting for about BD 489 thousand, representing approximately 43% of total expenses. The financing costs also made an addition of about BD 131 thousand and an increase in staff expenses by about BD 21.8 thousand in 2007.

As a result, the net profits amounted to about BD 9.2 million, an increase of about 15.6% compared to 2006. Earnings per share amounted to about 29 Bahraini fils compared to about 26 Bahraini fils in 2006. The profitability indicators, such as the return on assets and on equity, realized about 13.8% and 19.3% respectively in 2007.

The following table shows a summary of some financial indicators in 2007 compared to 2006

Financial indicators	2007	2006
EPS – Fils	28.8	26.4
Book value – Fils	149.7	128.1
ROE %	19.3%	20.6%
ROA %	13.7%	20.5%
ROC %	28.8%	26.4%



Projects & Assets

PROJECTS & ASSETS

First Real Estate Co. B.S.C. (Closed) aims, through its strategy of realizing consistent growth and a remarkable reputation in the local real estate market, to provide investors with attractive investment opportunities and maximizing the value of their investments. The Company's strategy lies in its pursuit of lucrative investment opportunities, in the acquisition of properties and land trading as well as targeting the desired profits. In implementing this strategy, the company focuses on a minimum risk profile so as to provide maximum protection for the investors and shareholders' interests. This culminates in building, developing and monitoring strong a portfolio of real estate assets, while laying down clear exit strategies for each individual property.

The company also continues to exert a good effort to enhance and maximize the value of its assets, in order to meet its shareholders' expectations through implementing initiatives of consistent growth and diversification at both the local and the regional levels.

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

Income-Generating: Kingdom of Bahrain

Al Juffair Compound I

This is a luxurious residential compound in the heart of Al Juffair area. The compound, completely built and furnished in June 2004, comprises 32 villas of 300 sq. meters, each with a private swimming pool. The villas are fully leased.



Dallas 4 and 5

In August of 2007, the company acquired two fully leased residential buildings in Al Juffair area. The total area of each building is about 440 square meters, each comprising three floors with each floor containing one apartment.



Al Juffair Compound II

This is another luxurious residential compound just 20 meters from Juffair 1. The compound, completely built and furnished in July 2005, comprises 22 fully furnished villas of 300 sq. meters each. Each villa is provided with separate maid's quarters and a private swimming pool.



Royal Plaza (sold)

Royal Plaza residential tower lies in Al Hooraa area, close to Fairs Street and Diplomatic area. It consists of 10 floors, comprising 58 fully furnished and equipped apartments. This real estate was sold in August of 2007.

Blue Horizon (sold)

This building is situated in Al Juffair area and comprises 10 floors and 38 luxurious fully furnished and equipped apartments. The property was sold in December of 2007.



Trading and Development: Kingdom of Bahrain



The 100 Residence Tower and Al Fateh Lands

Al Fateh area, located within Al Juffair is one of the major commercial, investment and residential areas in the Kingdom of Bahrain. The area is witnessing significant development, featuring prestigious hotels and furnished residential apartments. The company owned three land parcels near Al Fateh Bridge, covering a total area of 69,773 sq. meters. In line with the company's strategy to take advantage of high land prices and realize profits, two of these land parcels were sold in July and October of 2007. In addition, development work started in July of 2007 on the 100 Residence Tower on the third plot of land. The tower consists of 27 floors and 100 apartments, covering a total building area of 22,510 sq. meters. The project is due for completion in the 2nd quarter of 2009.

Al Seef Land

This land, which covers an area of 755,728 sq. meters, is situated in Al Seef area, just north of the City Center Project. Ownership is equally shared with Dhow Real Estate Co. It is worth noting that Al Seef area is emerging as an important commercial and recreational center in the Kingdom of Bahrain. The area has been witnessing, over the past few years, quick development and growth, evident in the construction of roads, bridges and luxurious buildings. This has pushed up the price of land, making the company's land one of the most important investments of the company. The site master plan reflects integrated residential, recreational and commercial activities in addition to utilities, services and public establishments.

During the third quarter of 2007, the company obtained the government's approval to divide the land into 21 plots; two of them will be developed, one into a commercial tower and the other a suite apartment building, while the remaining plots will be allocated for trading.



Bahrain Investment Wharf



Bahrain Investment Wharf (BIW) was established by Tameer Co. as one of the major development projects in Bahrain. The project, situated at Al Hidd Industrial area, covers a total area of about 1.4 million sq. meters. It comprises an industrial zone, a commercial complex and a residential complex. The industrial zone is expected to contain light and medium transformational industries. The services complex will contain transport, cargo and storage services for investors in addition to other support companies. A logistics base will be provided in addition to residential and commercial complexes.

Considering the significance of this project, in 2007 the company booked, in BIW, two strategically situated lands directly overlooking the sea for investment purposes. One covers about 487 thousand sq. meters while the other covers an area of about 626 thousand sq. meters.

Al Hidd Industrial Land – Muharraq Area

In September of 2007, the company acquired a plot of land with an area of 73,000 sq. feet in Al Hidd Industrial area in Muharraq, which is intended for development into residential buildings for medium income buyers.

Madaen Al Luzi Project – Hamad Town

In January of 2007, the company made an investment in Madaen Al Luzi residential project, which consists of 105 villas and 708 apartments spreading over an area of 700,000 sq. feet, at a total cost of US\$ 75 million. The project aims to provide residential units to medium income buyers.

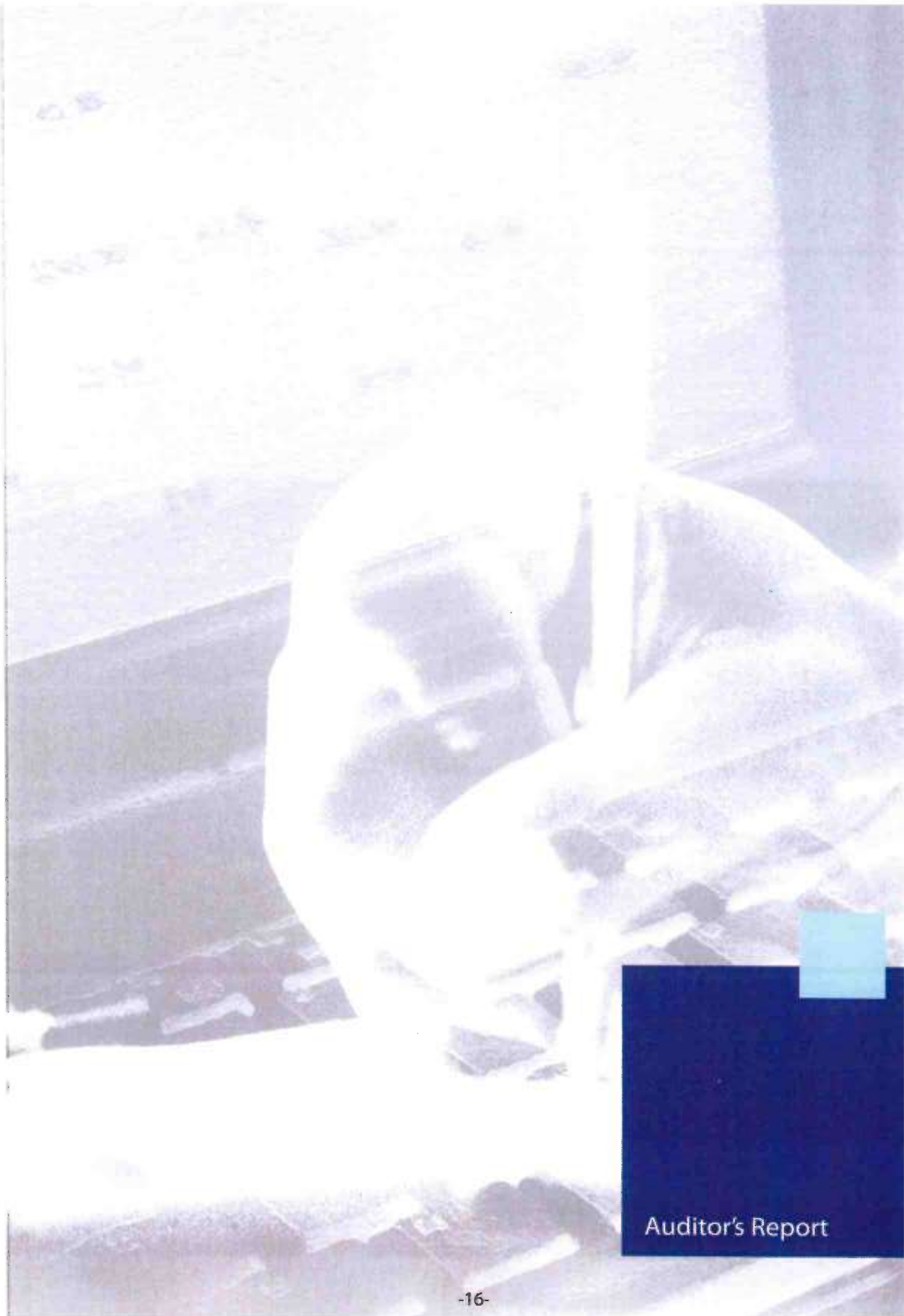
Income-Generating: United Arab Emirates

Laborer Accommodation at Mehesinia Area

In October of 2007, the company acquired equally with Injazzat Real Estate Development Co., a laborer accommodation building in Mehesinia area – UAE. The building, fully rented for five years, consists of two floors with 401 rooms.



First Real Estate Co. BSC (Closed)
Report of the Board of Directors and
Financial statements
31 December 2007



Auditor's Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)

We have audited the accompanying financial statements of First Real Estate Company B.S.C. (closed) ('the Company') which comprise the balance sheet as at 31 December 2007 and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion


In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We also confirm that, in our opinion, proper accounting records have been kept by the Company and the financial statements are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the memorandum and articles of association of the Company have occurred during the year ended 31 December 2007 that might have had a material adverse effect on the business of the Company or on its financial position. We obtained all the information and explanations which we required for the purpose of our audit.



13 February 2008
ERNST & YOUNG
P.O. Box 140
Manama, Kingdom of Bahrain



Report of the Board of
Directors

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2007.

Principal activities and review of business developments

The company is engaged in the acquisition, development, renting out and disposal of high quality, stable and secure real estate investment opportunities in the Kingdom of Bahrain and GCC.

The Company made a profit of BD 9,173,526 during the year ended 31 December 2007 (2006: BD 7,934,975).

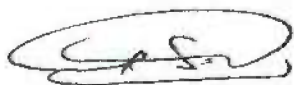
Movement in retained earnings:

	2007	2006
	BD	BD
Balance as of 1 January	5,010,580	65,852
Profit for the year	9,173,526	7,934,975
Dividends proposed / paid	(4,770,000)	(1,800,000)
Transfer to statutory reserve	(917,353)	(793,498)
Transfer to general reserve	(458,676)	(396,749)
Balance as of 31 December	8,038,077	5,010,580

Auditors

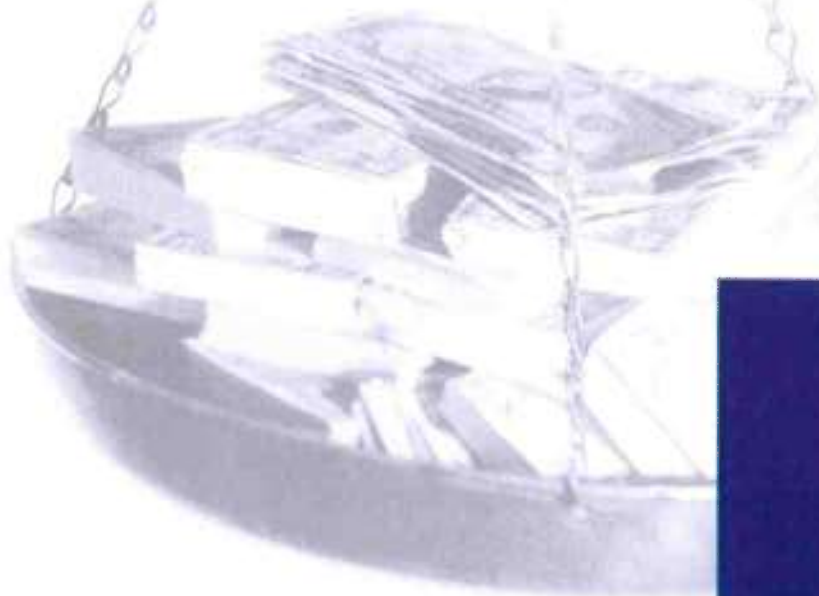
Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the company for the year ending 31 December 2008, will be submitted to the Annual General Meeting.

Signed on behalf of the Board



Chairman

13 February 2008

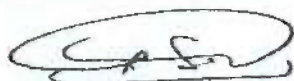


Balance Sheet

BALANCE SHEET
31 December 2007

	Notes	2007 BD	2006 BD
ASSETS			
Non-current assets			
Furniture and computers	4	27,289	30,987
Investment properties	5	55,886,231	38,304,202
		<u>55,913,520</u>	<u>38,335,189</u>
Current assets			
Accounts receivable and prepayments	6	169,385	124,940
Due from a related party	14	368,175	-
Bank balances and cash		10,458,930	181,764
		<u>10,996,490</u>	<u>306,704</u>
TOTAL ASSETS		<u>66,910,010</u>	<u>38,641,893</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	7	31,800,000	30,000,000
Share premium	8	27,241	27,241
Statutory reserve	9	2,112,210	1,194,857
General reserve		855,425	396,749
Retained earnings		8,038,077	5,010,580
Proposed appropriations	10	4,770,000	1,800,000
Total equity		<u>47,602,953</u>	<u>38,429,427</u>
Non-current liability			
Term loan	11	12,999,221	-
Current liabilities			
Accounts payable and accruals	12	6,169,275	82,384
Advances from tenants		138,561	130,082
		<u>6,307,836</u>	<u>212,466</u>
Total liabilities		<u>19,307,057</u>	<u>212,466</u>
TOTAL EQUITY AND LIABILITIES		<u>66,910,010</u>	<u>38,641,893</u>

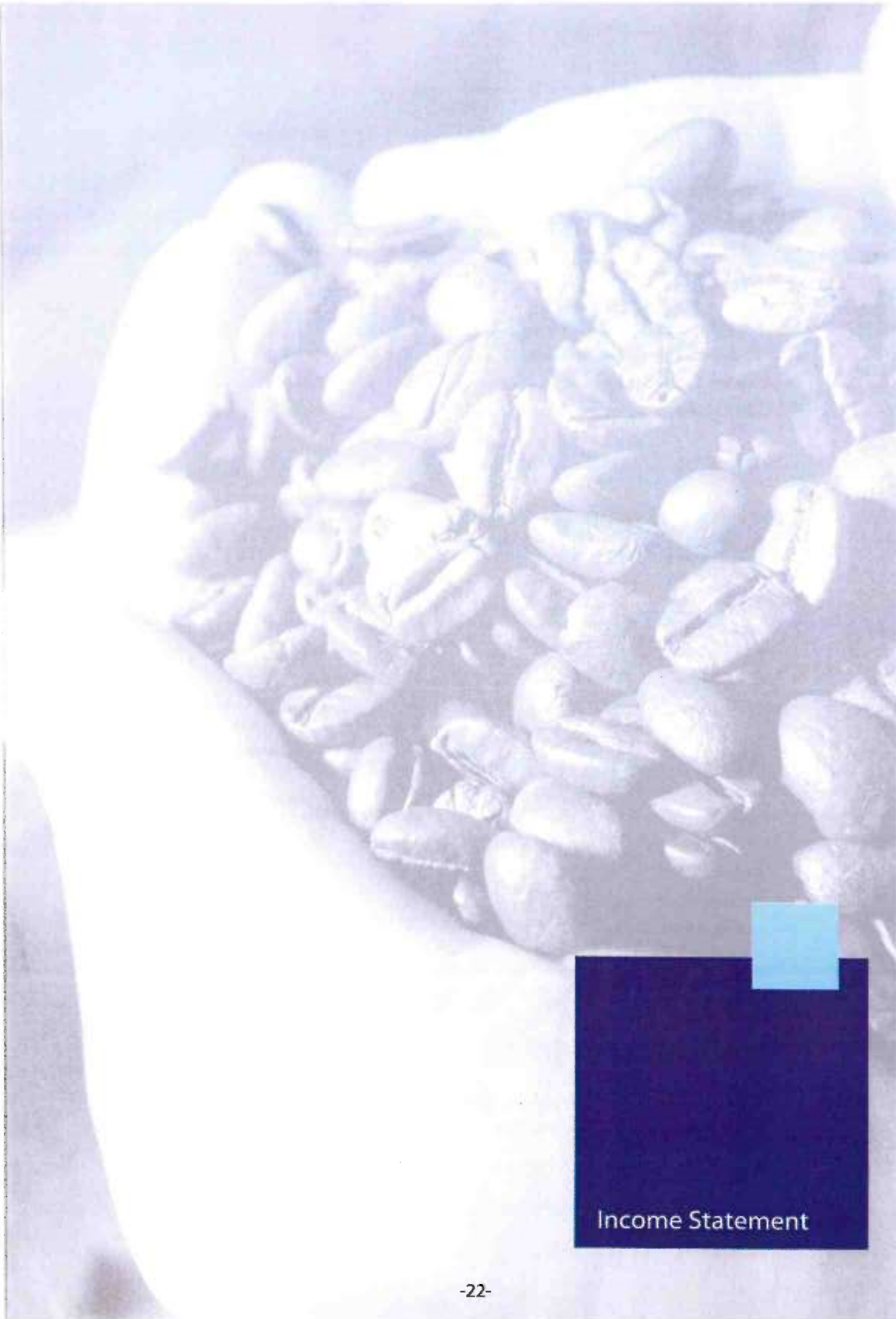
The financial statements were authorised for issue in accordance with a resolution of the Board of directors on 13 February 2008.



Mohammad Al Farhan
Chairman



Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman



Income Statement

INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007	2006
		BD	BD
INCOME			
Rental revenue		1,492,854	1,500,825
Profit on disposal of investment properties		1,456,650	-
Changes in fair values of investment properties		7,287,588	6,993,419
Wakala income		64,877	990
Other income		1,942	7,796
		<u>10,303,911</u>	<u>8,503,030</u>
EXPENSES AND OTHER CHARGES			
Property expenses		(337,919)	(429,931)
Staff cost		(95,803)	(74,034)
Board of directors remuneration		(70,000)	-
Administrative expenses		(489,229)	(61,855)
Depreciation	4	(6,198)	(2,079)
Finance costs		(131,236)	(156)
		<u>(1,130,385)</u>	<u>(568,055)</u>
PROFIT FOR THE YEAR		<u>9,173,526</u>	<u>7,934,975</u>



Statement of Cash Flows

CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 BD	2006 BD
OPERATING ACTIVITIES			
Profit for the year		9,173,526	7,934,975
Adjustment for :			
Profit on disposal of property		(1,456,650)	-
Depreciation	4	6,198	2,079
Change in fair values of investment properties		(7,287,588)	(6,993,419)
Operating profit before working capital changes		435,486	943,635
Working capital changes:			
Accounts receivable and prepayments		(44,445)	40,056
Due from related party		(368,175)	-
Accounts payable and accruals		6,086,891	442
Advances from tenants		8,479	1,839
Due to a related party		-	(1,049,740)
Net cash from (used in) operating activities		6,118,236	(63,768)
INVESTING ACTIVITIES			
Purchase of fixed assets	4	(2,500)	(33,068)
Addition to investment properties	5	(17,616,410)	(162,911)
Proceeds from sale of investment properties	5	8,778,619	-
Net cash used in investing activities		(8,840,291)	(195,979)
FINANCING ACTIVITIES			
New term loan	11	12,999,221	-
Dividend paid		-	(78,702)
Net cash from (used in) financing activities		12,999,221	(78,702)
INCREASE (DECREASE) IN BANK BALANCES		10,277,166	(338,449)
Bank balances at the beginning of the year		181,764	520,213
BANK BALANCES AT THE END OF THE YEAR		10,458,930	181,764



Statement of Changes
in Shareholders Equity

First Real Estate Company B.S.C. (closed)

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
Year ended 31 December 2007

	Share capital	Share premium	Statutory reserve	General reserve	Retained earnings	Proposed appropriations	Total
Notes	BD	BD	BD	BD	BD	BD	BD
Balance at 1 January 2006	30,000,000	27,241	401,359	-	65,852	78,702	30,573,154
Profit for the year	-	-	-	-	7,934,975	-	7,934,975
Transfer to statutory reserve	-	-	793,498	-	(793,498)	-	-
Transfer to general reserve	-	-	-	396,749	(396,749)	-	-
Dividend paid	-	-	-	-	-	(78,702)	(78,702)
Bonus shares	-	-	-	-	(1,800,000)	1,800,000	-
Balance at 31 December 2006	30,000,000	27,241	1,194,857	396,749	5,010,580	1,800,000	38,429,427
Profit for the year	-	-	-	-	9,173,526	-	9,173,526
Bonus shares issued	7	1,800,000	-	-	-	(1,800,000)	-
Transfer to statutory reserve	9	-	917,353	-	(917,353)	-	-
Transfer to general reserve	-	-	-	458,676	(458,676)	-	-
Dividend paid	-	-	-	-	-	-	-
Stock dividend	-	-	-	-	-	-	-
Proposed dividends	-	-	-	-	(3,180,000)	3,180,000	-
- cash	10	-	-	-	(1,590,000)	1,590,000	-
- bonus shares	10	-	-	-	-	-	-
Balance at 31 December 2007	31,800,000	27,241	2,112,210	855,425	8,038,077	4,770,000	47,602,953

TIME
M

INVESTMENTS

SAVINGS

BILLS TO PAY

No.

No.

No.

Notes to the
Financial Statement

1 ACTIVITIES

First Real Estate Company B.S.C. (closed) ("the Company") was incorporated in the Kingdom of Bahrain on 10 September 2002 and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 49288. The Company is engaged in the acquisition, development, renting out and disposal of high quality, stable and secure real estate investment opportunities in the Kingdom of Bahrain and GCC. The address of the Company's registered head office is Al Rossais Tower - Diplomatic area, Room No 171 & 172, Building No. 283, Block no 317, Road no 1704, Manama, Kingdom of Bahrain.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law.

The financial statements are prepared under the historical cost conversion modified to include the measurement at fair value of investment properties

Changes in accounting policies

The accounting policies are consistent with those used in the previous year except as follows:

The Company has adopted the following new and amended IFRS during the year. Adoption of these new and revised standards did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures.

IFRS 7 : Financial Instruments: Disclosures

IAS 1 : Amendment - Presentation of Financial Statements

IFRS 7 : Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 : Amendment - Presentation of Financial Statements

This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

International Accounting Standards Board (IASB) Standards and Interpretations issued but not applied

The Company has not adopted the revised IAS 1 "Presentation of Financial Statements" which will be effective for the year ending 31 December 2009. The application of this standard will result in amendments to the presentation of the financial statements.

Furniture and computers

Furniture and computers are stated at cost less accumulated depreciation and any impairment in value.

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

Computers	4 years
Furniture	7 years

The carrying values of furniture and computers are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Accounts receivable

Accounts receivable is stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Term loans

Term loans are carried on the balance sheet at their principal amounts. Installments due within one year are shown as a current liability. Interest is charged as an expense as it accrues, with unpaid amounts included in "accounts payable and accruals".

Investment properties

Investment properties are initially measured at cost which is the fair value of the consideration given to acquire the properties, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the year in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the statement of income.

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- b) For assets carried at cost, impairment is the difference between the carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Accounts payable and accruals

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

Advance from tenants

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

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Finance cost

Finance cost are recognised as an expense in the period in which it is incurred

Rental revenue

Rental revenue arising from investment properties is accounted for on a straight line basis over the lease term on ongoing leases.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

3 KEY SOURCES OF ESTIMATION UNCERTAINTIES

Useful lives of furniture and computers

The Company's management determines the estimated useful lives of its furniture and computers for calculating depreciation. This estimate is determined after considering the expected usage of the asset and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimate.

Fair value of investment properties

The Company's management accounts for investment properties at fair values at the balance sheet date. These fair values are determined by a professional valuer based on the circumstances in existence and on the assumptions of available buyers as on that date. The valuation is made annually and the future values of investment properties will be adjusted accordingly based on the changes in the estimation. Any difference in the amount actually realised in the future periods and the changes in fair values will be recognised in the income statement.

Impairment of account receivables

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are overdue, are assessed collectively and a provision applied according to the age of the debt, based on historical recovery rates.

4 FURNITURE AND COMPUTERS

	Furniture BD	Computers BD	Total BD
Cost:			
At 1 January 2007	24,778	8,288	33,066
Additions	2,250	250	2,500
At 31 December 2007	<u>27,028</u>	<u>8,538</u>	<u>35,566</u>
Depreciation:			
At 1 January 2007	849	1,230	2,079
Provided during the year	4,098	2,100	6,198
At 31 December 2007	<u>4,947</u>	<u>3,330</u>	<u>8,277</u>
Net carrying amount:			
At 31 December 2007	<u>22,081</u>	<u>5,208</u>	<u>27,289</u>
At 31 December 2006	<u>23,929</u>	<u>7,058</u>	<u>30,987</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

5 INVESTMENT PROPERTIES

	2007	2006
	BD	BD
Opening balance as at 1 January	38,304,202	31,147,871
Additions during the year	17,616,410	162,912
Disposals during the year	(8,778,619)	-
Gain on sale of investment properties	1,456,650	-
	<u>48,598,643</u>	<u>31,310,783</u>
Net gain from fair value adjustment	7,287,588	6,993,419
	<u>55,886,231</u>	<u>38,304,202</u>

Investment properties are stated at fair value, which has been determined based on the valuation performed by accredited independent valuer as at 31 December 2007. The surveyor is an industry specialist in valuing these types of investment properties. The valuation undertaken is based on open market value, supported by market evidence in which assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Included in investment properties are BD 1,501,451 representing the cost of land and cost of development of properties. It is the intention of the management to treat these properties as investment properties upon completion of the construction.

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2007	2006
	BD	BD
Rent Receivable	164,365	123,044
Prepaid expenses	4,550	1,426
Security deposit	470	470
	<u>169,385</u>	<u>124,940</u>

Past due but not impaired

	Total	< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
	BD	BD	BD	BD	BD	BD
2007	164,365	68,610	29,586	32,849	23,614	9,706
2006	123,044	51,678	22,148	24,609	17,226	7,383

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

7 SHARE CAPITAL

	2007 BD	2006 BD
Authorised:		
318,000,000 (2006: 300,000,000) ordinary shares of 100 Fils (2006: 100 Fils) each	<u>31,800,000</u>	<u>30,000,000</u>
Issued, subscribed and paid up:		
At 1 January	30,000,000	30,000,000
Bonus issue during the year	<u>1,800,000</u>	<u>-</u>
	<u>31,800,000</u>	<u>30,000,000</u>

The general assembly meeting of the shareholders of the Company held on 19 February 2007 approved an increase in the share capital from BD 30,000,000 to BD 31,800,000 by way of issuance of 6% bonus shares amounting to BD 1,800,000.

8 SHARE PREMIUM

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

9 STATUTORY RESERVE

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

10 DIVIDENDS PAID AND PROPOSED

A cash dividend of 10 fils per share, totaling BD 3,180,000 and a bonus share issue amounting to BD 1,590,000 representing 5% of issued and paid-up share capital (2006: bonus shares totaling BD 1,800,000) have been proposed and will be submitted for formal approval at the Annual General Meeting.

During 2006, bonus shares relating to 2005 totaling BD 1,800,000 were declared and issued.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

11 TERM LOAN

The loan was obtained from a commercial bank in Kingdom of Bahrain. The loan is unsecured, carries interest at Bibor plus 1.25% and repayable in one lump sum payment on 1 November 2011.

12 ACCOUNTS PAYABLE AND ACCRUALS

	2007	2006
	BD	BD
Accounts Payable	355,769	3,795
Current account with property manager	9,882	72,066
Other payables	5,265,184	-
Accrued expenses	538,440	6,523
	<u>6,169,275</u>	<u>82,384</u>

Other payables represent liability towards long term lease of land from a Bahraini Company.

13 COMMITMENTS

Capital expenditure commitment

Authorised capital expenditure contracted for at the balance sheet date amounted to BD 4,979,319 (2006: BD 65,617).

14 RELATED PARTY TRANSACTIONS

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

"Transactions with related parties included in the income statement are as follows:"

	2007		2006	
	Shareholder	Other related parties	Shareholder	Other related parties
	BD	BD	BD	BD
Property expenses	-	115,227	-	72,066

Balances with related parties included in the balance sheet are as follows:

	2007		2006	
	Shareholder	Other related parties	Shareholder	Other related parties
	BD	BD	BD	BD
Due from a related party	-	368,175	-	-

The amount is interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

14 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

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

	2007	2006
	BD	BD
Short term benefits	70,594	114
Employees' end of service benefits	1,063	275

15 RISK MANAGEMENT

Interest rate risk

The Company is exposed to interest rate risk on its interest bearing liability (loan from a commercial bank).

The following table demonstrates the sensitivity of the income statement to reasonably possible change in interest rates, with all other variables held constant on a floating rate loan.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Company's profit for one year, based on the floating rate loan held at 31 December 2007.

There is no impact on the Company's equity.

	Increase/ decrease in basis points BD	Effect on profit for the period BD
2007		
BD	+10	3,250
BD	-10	(3,250)

Liquidity risk

The Company limits its liquidity risk by ensuring bank facilities are available.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2007, based on contractual payment dates and current market's interest rates.

Year ended 31 December 2007	Less than 3 months	3 to 12 months	1 to 5 years	More than five years	Total
Term loan	-	-	13,000,000	-	13,000,000
Account payable and accruals	3,467,710	1,900,782	800,783	-	6,169,275
Total	<u>3,467,710</u>	<u>1,900,782</u>	<u>13,800,783</u>	<u>-</u>	<u>19,169,275</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

15 RISK MANAGEMENT (continued)

Credit risk

The Company seeks to limit its credit risk by determining payment terms and conditions in the lease agreement with the tenants and by monitoring and follow up of overdue payments.

Since the Company has let out its properties to a large number of tenants, therefore, there is no significant concentration of credit risk.

Currency risk

The Company mainly transacts its business in Bahraini Dinars. Hence there is no significant currency risk for the Company.

16 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of accounts receivable and prepayments, due from a related party, bank balances and cash. Financial liabilities consist of accounts payable and accruals and advances from tenants.

The fair value of financial instruments are not materially different from their carrying amounts.

