





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

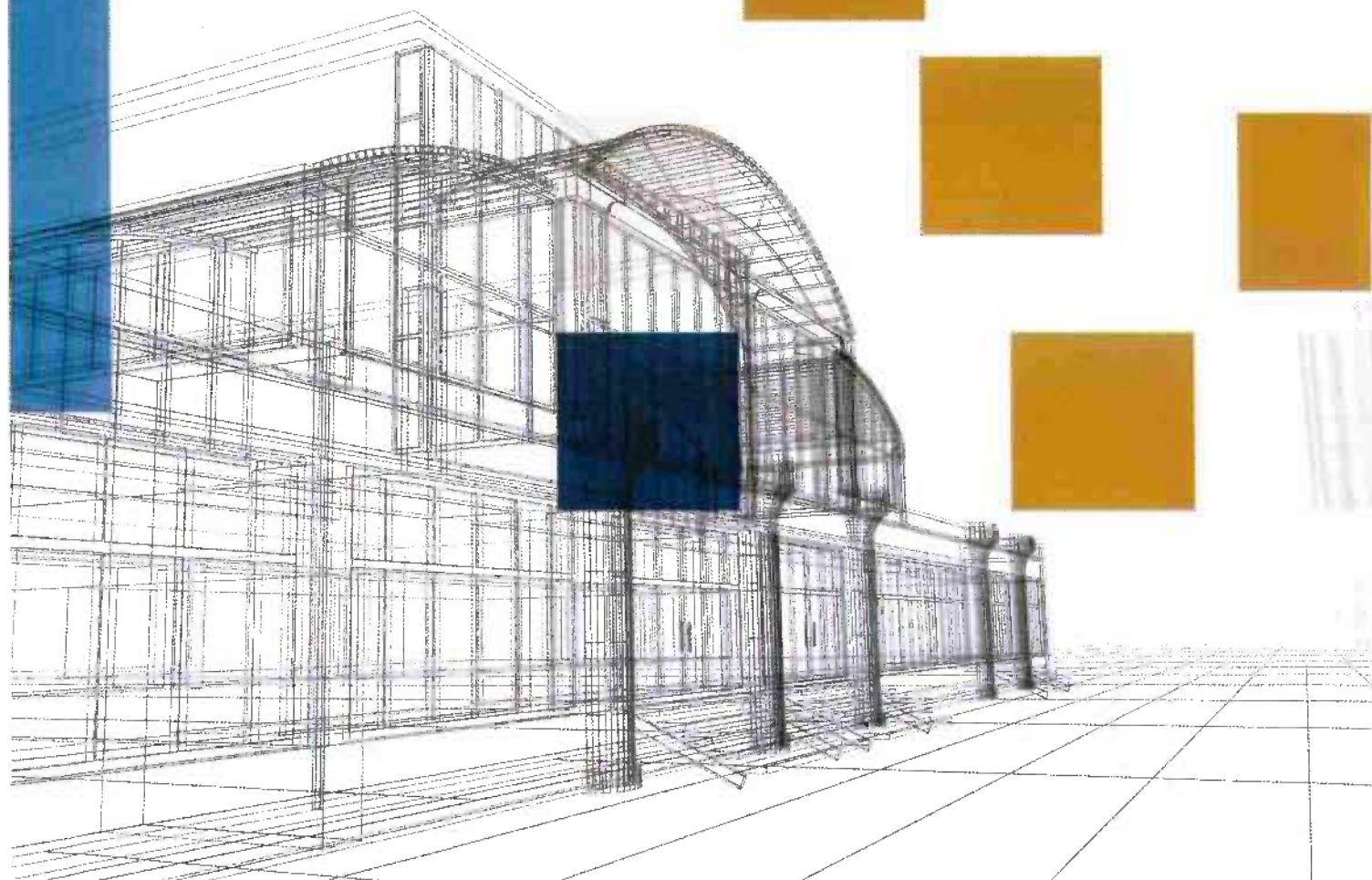


His Highness  
**Shaikh Khalifa Bin Salman Al Khalifa**  
The Prime Minister



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

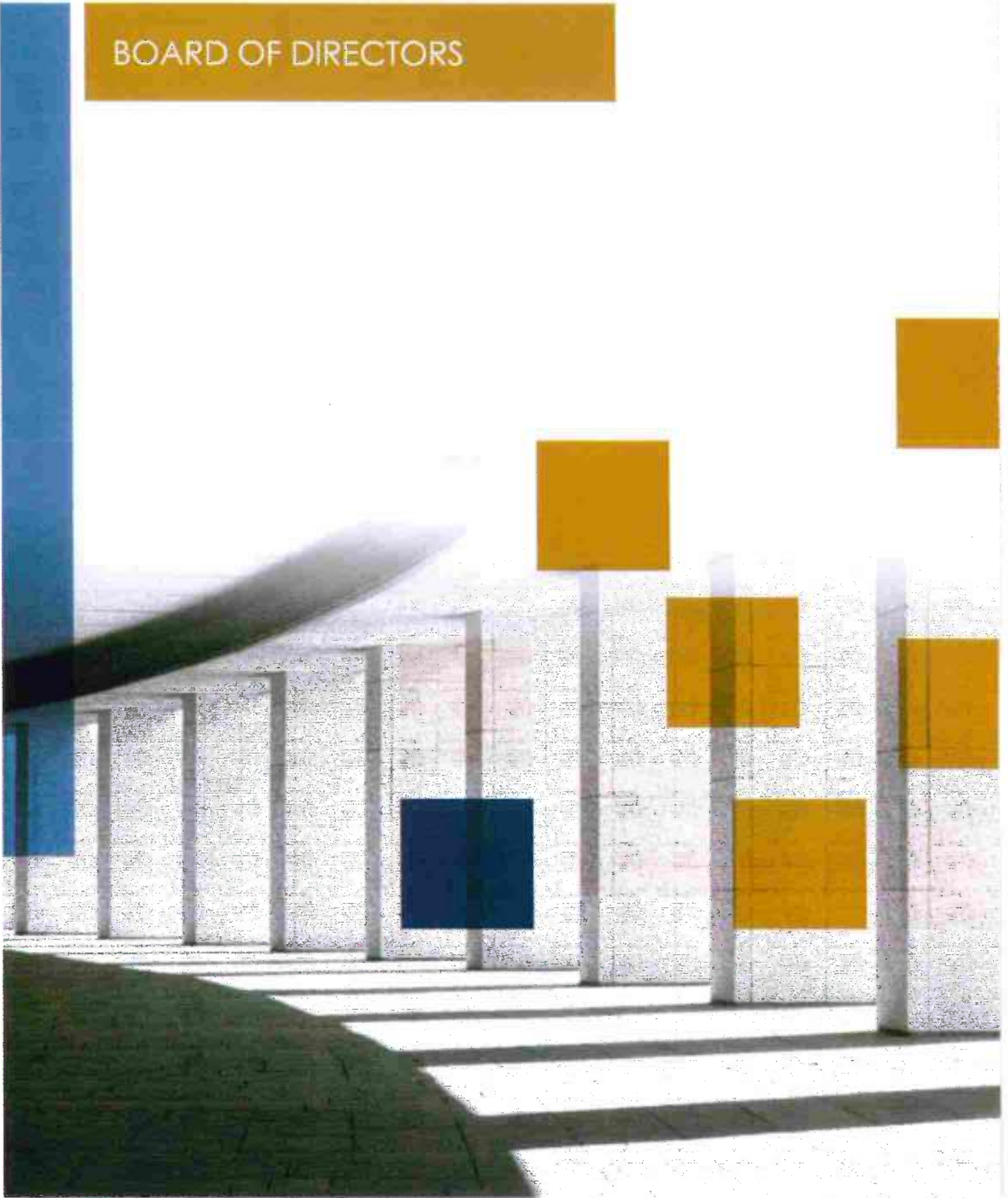
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# BOARD OF DIRECTORS





Mohammed Ibrahim Al Farhan  
Chairman



Abdulghaffar Abdulrahim Al-Kooheji  
Vice Chairman



Hamad Abdulaziz Al Shaya  
Board Member



Mohammad Ahmad Al Qassimi  
Board Member



Ahmad Saoud Al Sumait  
Board Member

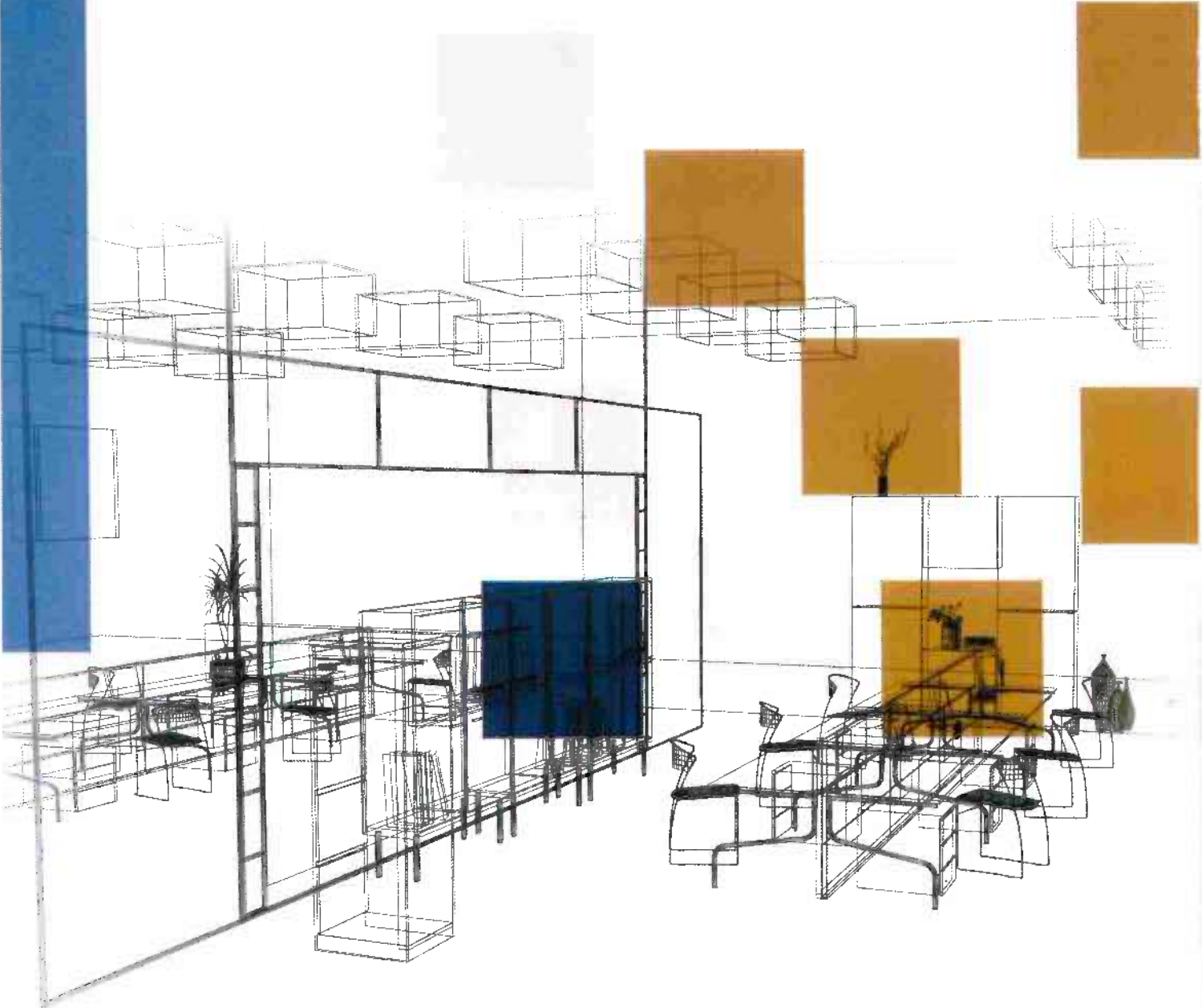


Adel Jassim Al Nijadah  
Board Member



Hadeel Abdulatif Binnaji  
Board Member

# CHAIRMAN'S MESSAGE





## Dear Shareholders,

It gives me great pleasure to present to you, in my name and on behalf of my fellow members of the board, the annual report of First Real Estate Co. B.S.C (closed), including the financial report for the fiscal year which ended on the 31<sup>st</sup> of December 2008, during which the company has witnessed remarkable activity reflected in the accomplished results and realized figures.

2008 was not a good year neither for the global economy nor for the regional one or that of the Kingdom of Bahrain. The international financial turmoil hit the global economy and affected the prices of financial and real estate assets, resulting in deficits in some financial sectors. The real economy was not an exception, with the world's main economies giving indicators of slowing growth in the best cases and negative growth in the worst scenarios. The psychological impact of the havoc thus affected the region's economies, including the Kingdom of Bahrain. The negative outcome was even doubled by the slumping oil prices, when the barrel lost over \$100 in comparison to the highest price it had reached.

Nevertheless, this downfall of markets did not truly affect First Real Estate Co. In fact, the Company experienced an exceptional and prosperous year; it realized its best financial performance yet. This was ascertained by the conservative policies adopted by its board of directors at the time of affluence along with the Company's strict commitment to its set objectives. Moreover, some projects matured early on and were sold before the crisis. Consequently, the company was able to exceptionally realize net profits of over BD 25.8 million, of which about 73% are realized profits. Despite this high level of profits, the board of directors would like to affirm that it will maintain its conservative policies, taking into consideration that, over the upcoming year of 2009, the negative pressures of the turmoil will continue. On the other hand, the Company did not re-evaluate its immature assets, leaving a margin to preserve the rights of shareholders in case of the occurrence of the worst scenario. Furthermore, the board of directors has taken a decision that reflects its sense of responsibility towards its shareholders in such difficult circumstances, proposing that the general assembly distributes cash dividends at 75%. Also, in view of the current market situation, the board has decided to postpone the enlisting of the Company in the Bahrain Stock Exchange Market until the situation improves and stabilizes.

The financials reflect an asset growth from BD 66.9 million at the end of 2007, to 90.6 million in 2008, showing an increase of 35%. Shareholders' equity grew from BD 47.6 million in 2007 to BD 70.3 million in 2008, up by 48%. Additionally, revenues went up from BD 10.3 million at the end of 2007 to BD 27.8 million in 2008, marking an increase of 170%. Meanwhile, total expenses rose to BD 1.95 million at the end of 2008 compared to BD 1.13 million in 2007, up by 73% bringing net profit up to BD 25.8 million as at the end of 2008 compared to BD 9.2 million in 2007, up by 182%.

In July 2008, First Real Estate Co. B.S.C (closed), together with Dhow Real Estate Company, jointly signed an agreement with Bahrain Investment Wharf (BIW) to acquire four buildings within the BIW Labour Accommodation Camp project. During the same month the company, in partnership with Injazat Business Management L.L.C. and other investors, acquired a land in Jebel Ali, Dubai for development purposes, thereby increasing its investment in the labor accommodation sector in the United Arab Emirates as part of its strategy to geographically distribute the company's assets. The company had further acquired equity shares in Marsa Al Seef Project in Manama in September 2008. Additionally, the company sold a number of lands in Al Seef Area and two residential building in Al Juffair area.

As for future plans, the company will witness major prosperity and growth in the year 2009, where the development of the residential tower in Al Fateh area will be fully accomplished adding to the income-generating pool. Also, the Company will complete the construction of a warehouse in Bahrain Investment Wharf to be leased based on a 15-year lease agreement signed with an investor. It will also commence the design works for 3 residential and commercial towers in Al Seef area before starting the arrangements required for the development of the project.

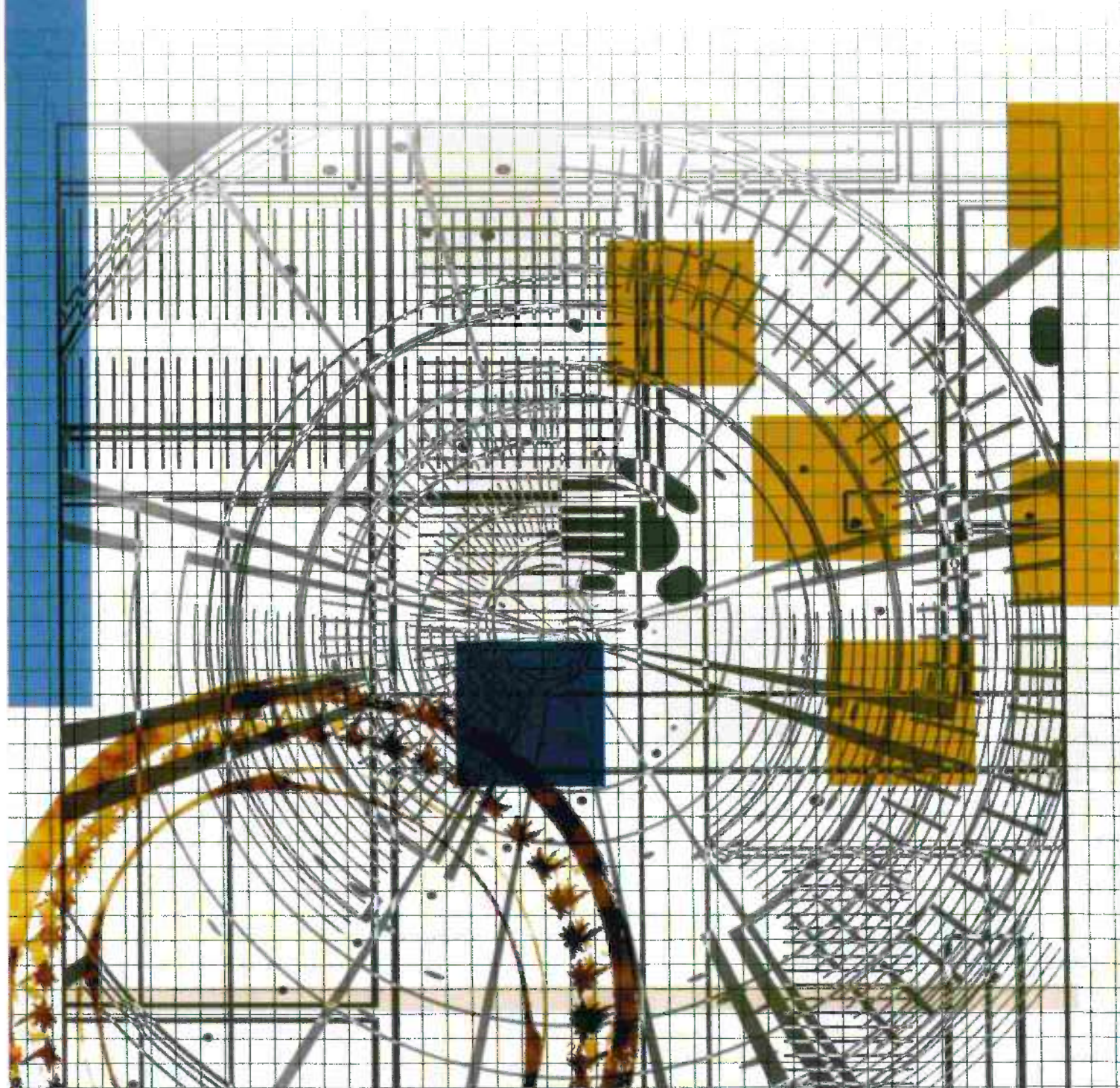
To conclude, I would like to extend our sincere gratitude and appreciation to the company's shareholders for their continued support and valued trust. I also express appreciation to the management and staff for the effort and dedication exerted by each and every one of them towards enhanced success and achievement of the company's future objectives.

Kindest regards,



**Mohammad Ibrahim Al-Farhan**  
Chairman of the Board

INTRODUCTION, STRATEGY,  
VISION & MISSION STATEMENT



## 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 2008 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 the 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.

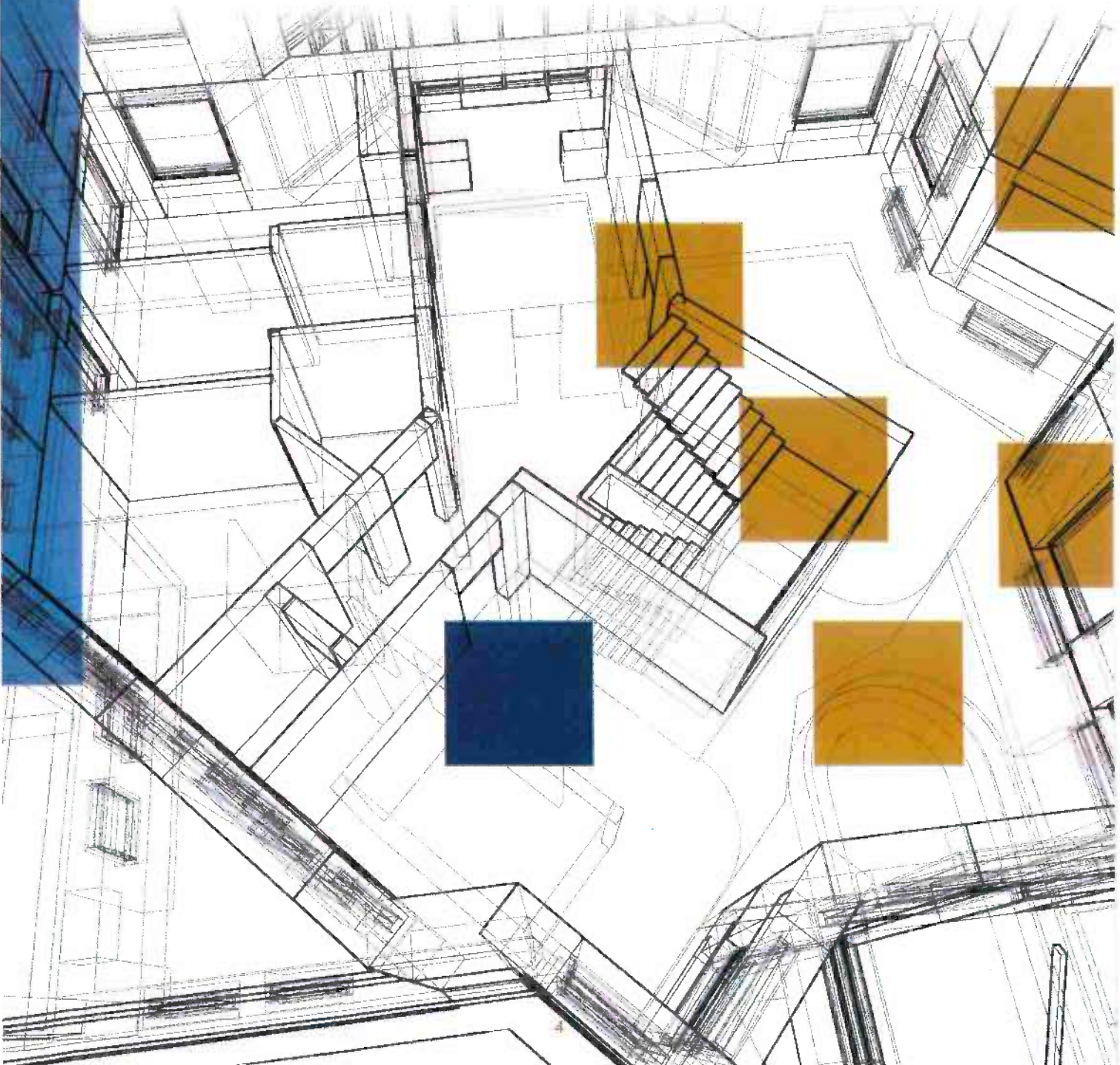
## ■ Vision

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

## ■ Mission Statement

To optimize returns by providing high-quality, stable and secure real estate investment opportunities in Bahrain 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.

COMPANY'S PROJECTS



First Real Estate Co. B.S.C. (Closed) aims, through its strategy of realizing consistent growth and 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 a strong 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 shareholder's 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.

## I. Income Generating Properties

### Kingdom of Bahrain



#### Juffair Compound 1

The Company acquired this residential compound in June 2004. It is located in Al Juffair area; one of Manama's prime locations. This luxurious fully furnished compound comprises of 32 villas over 300 square meters, each with a private swimming pool. The compound is fully leased.

#### Juffair Compound 2

In July 2005, the company completely built and furnished this luxurious residential compound adjacent to Juffair Compound 1. The compound comprises of 22 fully furnished villas with a total area of approximately 300 square meters. Each villa features an independent external maid's quarter and a private swimming pool. The compound is fully leased.



#### Dallas 4 and 5 (Sold)

In August 2007, the Company acquired two residential buildings known as Dallas 4 and 5 in Al Juffair area. Each building contains a total area of approximately 440 square meters and comprises of three floors with one apartment on each floor. In year 2008, the Company realized profit by the disposition of Dallas 4 in March 2008 and Dallas 5 in May 2008.

## United Arab Emirates



### Labour Accommodation at Muhaisanah Area , Jebel Ali, Dubai

In October 2007, and in alliance with Injazzat Real Estate Development Company, the Company acquired a labour accommodation building in Muhaisanah area with a total area of 5,287 square meters. The building comprises of two floors containing 401 rooms and is fully rented for five years.

## II. Trading and Development

### Kingdom of Bahrain

#### • The 100 Residence Tower, Al Fateh Area

The development works for this residential tower started in July of 2007 on a plot owned by the Company located in Al Fateh area in Juffair. The project consists of 27 floors containing 100 fully furnished apartments covering a total built-up area of 22,510 square meters. The skeleton works are fully completed where the finishing and external works are more than 50% done. The project is due for completion during the 2<sup>nd</sup> quarter of 2009, where it will add up to the income-generating assets of the Company.



#### • Al Seef Land, Al Seef District

In June 2004, and in alliance with Dhow Real Estate Company, the Company acquired a strategically located land in Al Seef District North of Bahrain City Center. The land was then subdivided into 21 plots covering an area of 510,881 square feet. In 2008, the Company decided to take advantage of the land appreciation prices in Al Seef area by selling 13 of its plots, covering a total area 336,203 square feet, generating a substantial income to the Company. The Company's strategy aims to hold 5 of the plots and sell them within the next year. The remaining three plots, containing a total land area of 70,290 square feet, will be utilized for the development of a mixed use facility containing one commercial and two residential towers. The company is in the process of preparing the initial drawings for the project.

#### • Bahrain Investment Wharf, Al Hidd Area

Tameer Company entered a long-term land lease agreement with the Government of Bahrain to develop the Bahrain Investment Wharf (BIW) which is located at Hidd Industrial area. The project covers a total area of about 1.7 million square meters, and entails developing an industrial zone providing transport, cargo and storage services, a commercial complex and a residential complex.

#### i) BIW Plots

In 2007, the company acquired two strategically situated lands overlooking the sea for investment purposes known as G26 and G28, covering a total area of approximately 103,468 square meters. The Company signed a 15 year build-to-suit warehouse contract agreement with a strategic investor with the intension to develop plot G28 into a warehouse with a total built-up area of 31,000 square meters. Currently the design of the warehouse is in progress and the project is expected to commence with construction during the first quarter of 2009.

## ii) BIW Labor Accommodation

In July 2008, the Company and in association with Dhow Real Estate Company have equally established Al Yal Real Estate Company, and jointly signed a long-term agreement with BIW Labor accommodation Company to acquire four labor accommodation complexes with 234 rooms. The total area for the Labor Accommodation Camp project is 33,315 square feet.

### • Hidd Industrial Land, Hidd Area

In September 2007, the company acquired a plot of land in Al Hidd Industrial area covering a total area of 73,000 square feet. The Company intends to develop this plot into residential units for medium income buyers.

### • Madaen Al Luzi Project, Hamad Town



In January 2007, the Company acquired equity shares in Madaen Al Luzi residential. The original plan for the project is to develop 105 villas and 708 apartment units spreading over an area of 700,000 square feet at a total cost of US\$ 75 million. However due to the continued land appreciation witnessed in the Kingdom of Bahrain, Madaen Al Luzi Project master plan had been changed to selling land parcels rather than developing residential units.

### • Marsa Al Seef, Al Seef Area

Marsa Al Seef Project is located in the Northern area of Al Seef area. It includes developing self contained waterfront city extensive residential towers, town houses, commercial retail facilities, office towers and leisure and entertainment facilities over a total area of 25,833,600 square feet. The project targets the upper income consumers that seek higher standards.

In September 2008, the Company acquired equity shares in Marsa Al Seef Investment Company Limited. The project company will perform reclamation works and provide infrastructure services and will later on sell lands for potential developers to further develop the area according to their set Master Plan. The Company intends to invest in this project to benefit from the anticipated land appreciation.

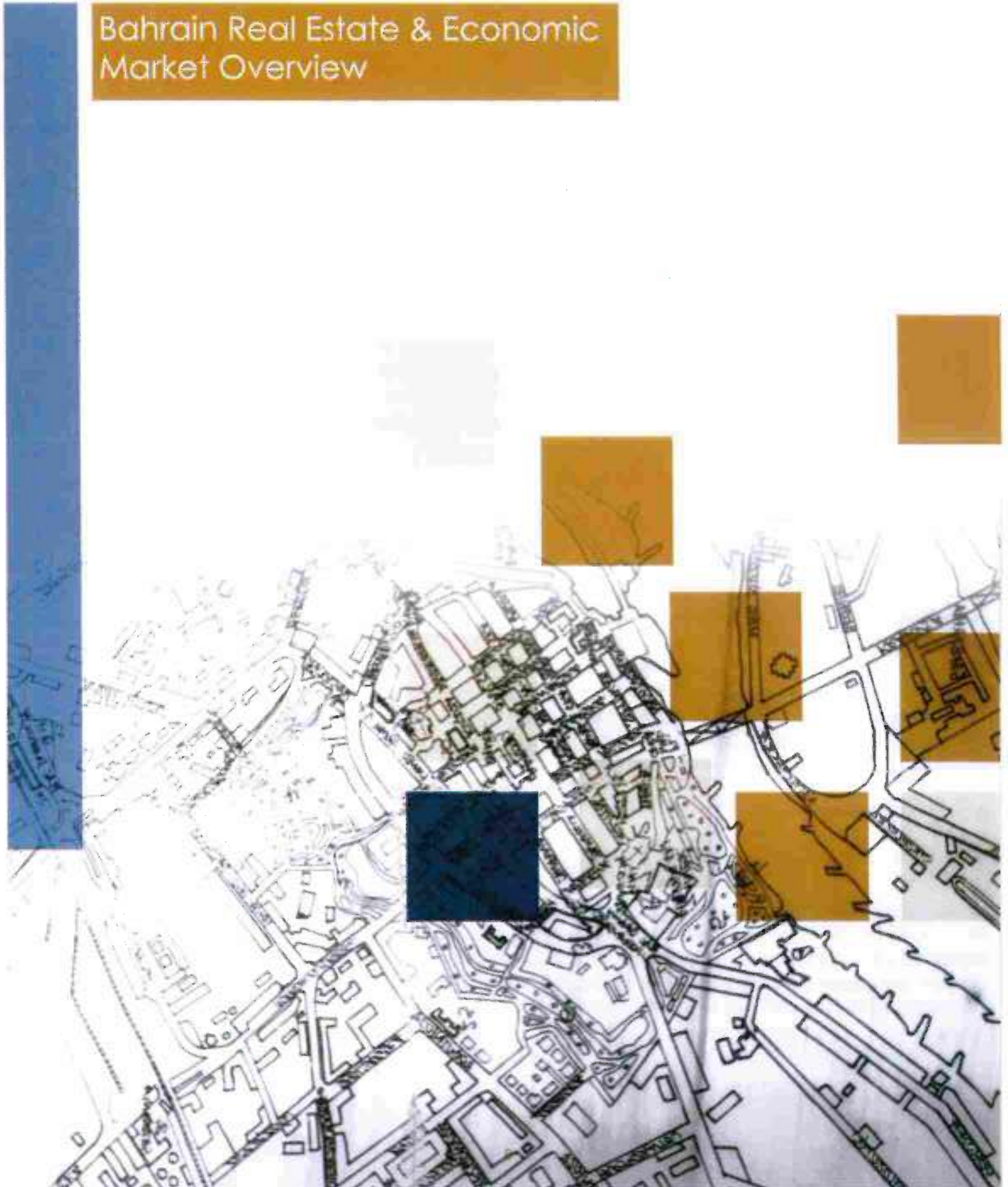
## United Arab Emirates

### • Land in Jebel Ali, Dubai

In August 2008, through the Company's 25% share in Injazat Business Management L.L.C. and other investors, the company acquired 4 plots of land with a total area of 80,000 square feet in Jebel Ali, Dubai. The plots are to be developed into a labour accommodation complex containing 1,160 rooms. The project is anticipated to be completed by the second quarter of the year 2010.



# Bahrain Real Estate & Economic Market Overview



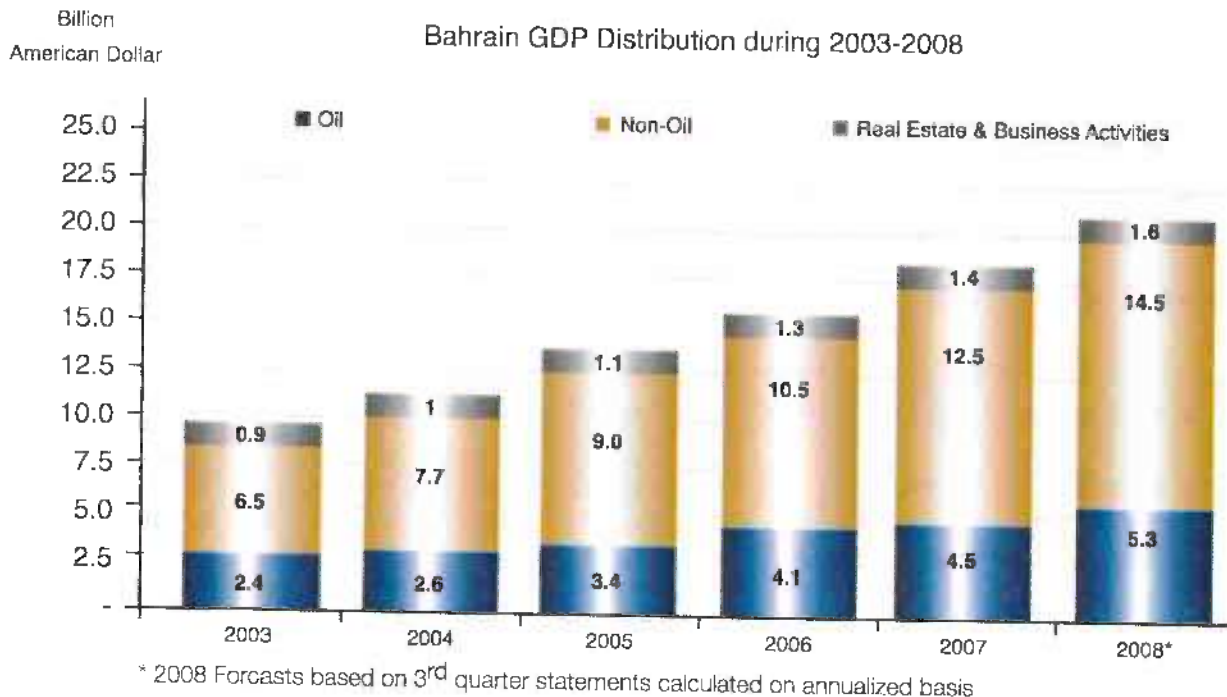


## First- Performance of Local Economy

The nominal gross domestic product (GDP) rose to about USD 21.4 billion in 2008 (according to the EIU bulletin September 2008) compared to USD 18.4 billion in 2007, representing a yearly growth rate of about 16% compared to about 16.4% at the end of 2007. According to the same source, the real GDP growth remained high and reached about 7% in 2008 compared to about 6.5% in 2007.

According to the economic forecasts bulletin of the Central Bank of Bahrain (September 2008), the population reached about 1.123 million at the end of 2008 compared to about 1.039 million at the end of 2007, marking an increase of about 8%. Thus, Bahrain has been witnessing an expansionist housing policy since 2001, where the population compounded growth rate for the period 2001-2007 amounted to about 8%. Growth was 12.9% for non-Bahraini population and 4.4% for the Bahraini population at the same period. The proportion of Bahraini population, compared to the total population, dropped from about 62.3% in 2001 to 50.7% at the end of 2007. The increase of the Bahraini population seems to be natural; it somewhat results from nationalization. Whereas, the increase in the non-Bahraini population is the result of the high economic growth over the period 2002-2007, which encouraged companies and employers to recruit more manpower from abroad.

With a population growth rate less than a nominal economic growth rate, the GDP per capita increased to about USD 19 thousand compared to about USD 17.8 thousand at the end of 2007.



While oil is no longer the main source of income, it still plays a significant role in the Bahraini economic performance. The oil production and refining sector counted for about 25% of GDP in 2007. That is less than what the financial services sector contributed, which amounted to about 27%. Hence, the financial services sector benefited from high rates of liquidity in the region and governmental contracts activity.

In 2008, Bahrain intensified its efforts to enhance the country's infrastructure by developing the existing facilities in Salman Port and placing the final touches for the \$137m worth new port of Sheikh Khalifa Bin Salman, due for inauguration in March 2009. Additionally, there was also the expansion of Bahrain International Airport to increase its capacity to one million ton of cargo per annum. What's more, thanks to the opening of the Bahraini economy to foreign investments and the development of the banking sector, it has been possible for the economy to diversify

away from entire reliance on oil. Consequently, this has rendered the Bahraini economy more balanced compared to other GCC countries.

The oil sector's contribution to the GDP is expected to decrease even further over the forthcoming years as the Bahraini economy is expanding and diversifying, particularly bearing in mind that the oil sector is not at its peak. Besides, Bahrain was the first producer and exporter of oil in the region, as a result its reserve of oil has been depleted; the current production can hardly cover the domestic needs. Bahrain will try to diversify its sources of income beside investment to make use of its oil production capacity to the utmost.

It is expected that the crude oil production will gradually decrease in 2008 and 2009 with an increase in refined oil production with the operation of the (low sulfur content) diesel plant in the refinery owned by Bahrain Oil Co. (BABCO). High levels of imports will be maintained as the raw material (crude oil) is imported from abroad. The real GDP is expected to decrease from 7% in 2008 to 5.1% in 2009.

The inflation rate in 2008 reached about 9% compared to 4.4% in 2007 and is expected to reach about 8.8% in 2009, since the local demand and the money supply is still high as a result of high economic growth, high governmental spending and decreasing interest rates on loans. The weakening US dollar against most major currencies and the strength of the local demand will contribute to keeping the inflation rates high even with the declining curve compared to the record levels of 2008. This increase in inflation drove wages to augment; the average wage level in the private sector rose by 8.5% in the second quarter of 2008. But this increase in wages will not continue.

Briefly speaking, the Bahraini economy will be negatively impacted by the international financial turmoil and its reflections on the regional economies and oil prices. However, the economic growth will remain relatively high and the inflation rates will also remain high even if they continue to decrease. The economic growth and the persistent positive inflation rates mean that the decline in assets prices will remain moderate and the company may not be affected by this decline as it follows a conservative policy in evaluating its assets.

## **Second- Performance of the local real estate market**

According to the Central Bank of Bahrain, real estate activities and business services, reached about 7.4% of the gross domestic product of 2007, the equivalent of about 30.2% of the oil sector's contribution.

The building licenses issued from the beginning of 2008 till September amounted to about 8.7 thousand licenses or about 11.6 thousand licenses on a yearly basis, up by about 7% compared to 2007 when it reached 10.9 thousand licenses. However, the increase in the number of building licenses, which ranged between 10.9 and 11.7 thousand licenses during the period 2006-2008, did not match the level of the soaring Bahraini economy. But the comparison using the announced figures could be inaccurate, because the leap was reflected on the size of the licensed projects, some of which were the size of small cities.

On the other hand, the real estate market liquidity doubled, where the market transactions value rose from about BD 876 million in 2006 to about BD 1365 million in 2007 and about BD 1452.7 million as at the end of September 2008 (or about BD 1937 million on annual basis), more than two folds of the 2006 level. Despite this significant increase in liquidity, the number of real estate transactions increased at lower rates, amounting to about 16.5 thousand deals in 2006 and minimally decreased by about 0.8% in 2007 compared to 2006 and amounted to about 13.1 thousand transactions as of the end of September 2008 (about 17.4 thousand transactions on an annual basis). This increase in the market liquidity over the number of transactions can be explained by the increase in the real estate prices on one hand and the increase in the size of each transaction, i.e. a switch to buying commercial real estates rather than residential real estates, and also the switch to buying developed real estates instead of land.



Source: Central Bank of Bahrain – September 2008

\* 2008 forecasts based on 3<sup>rd</sup> quarter statements calculated on annualized basis.

The beginning of 2008 was a continuum of the market's trend, i.e. quick growth in the real estate market sectors, through the construction of towers, residential projects in addition to commercial complexes, which were the most demanded real estate products. While the first half of the year continued to feed the inflationary pressures in the real estate and other markets, the second half seemed slower and the level of prices started to decline with the beginning of the last quarter of the year after the international financial crisis in mid September 2008.

It would be very difficult to predict the trend of the Bahraini real estate market in 2009, because most of the impact is related to the developments in the treatment of the turmoil at a global level and the impact of these developments on oil prices. But most analysts agree that the world will start to give indicators of the healing of its turmoil by the end of 2009. We believe that the Bahraini market has limited supply and is characterized by superior quality as it turns into a financial and tourist center for the surrounding region. Therefore, the Bahraini real estate market is the second least affected market in the region after Qatar. In other words, it will be one of the best two markets in the region.

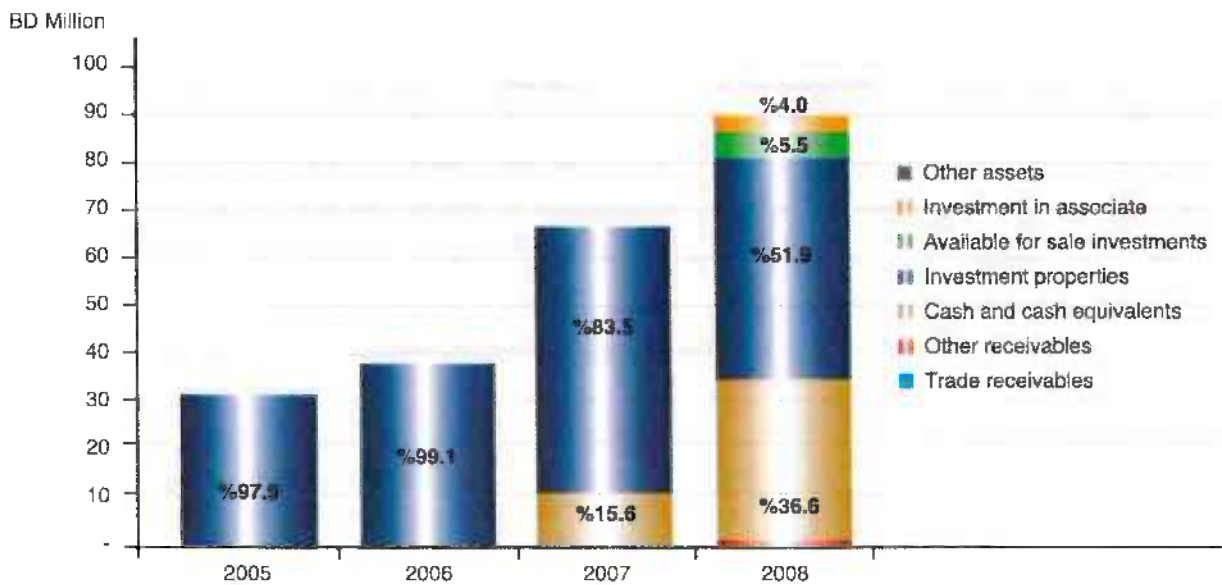
## Financial Analysis

### First - The Financial Position

For the seventh year since inception, First Real Estate Company has managed to grow its assets and improve its profitability through consistent implementation of its flexible strategy for purchase, acquisition and development of real estate. The company took advantage of the positive conditions that prevailed till the third quarter of 2008 and liquidated some of its properties to realize good returns for shareholders.

The company's assets grew by 35.4% in 2008 thus about BD 23.7 million to BD 90.6 million. The asset structure changed from that of 2007, when the real estate investment item counted for most assets with about BD 47 million or 51.9% of the company's total assets. The deposits with banks amounted to BD 33.1 million or 36.6% of the total assets compared to 15.6% in 2007. The increase in cash was due to the liquidation of properties at BD 19.8 million and a realized profit of about BD 18 million. In 2008, the company ventured into investments available for sale for BD 4.9 million or 5.5% of total assets and also invested BD 3.6 million in subsidiary for trading in real estates in the United Arab Emirates.

Development of First Real Estate assets over 2005-2008



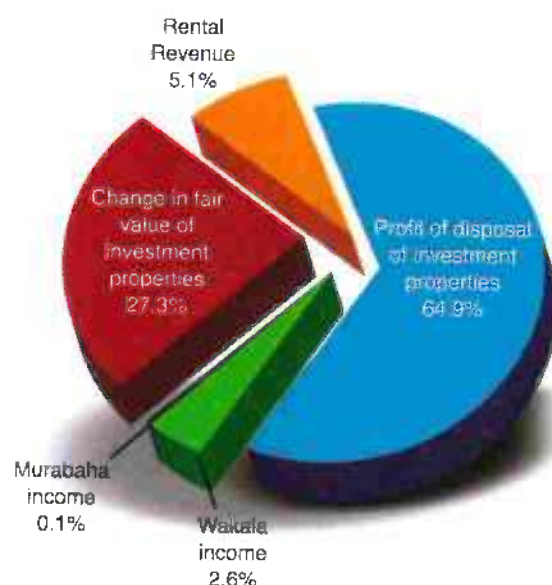
In implementing its expansion strategy, the company relied on external financing resources. It borrowed BD 5 million to finance its real estate investments and projects. This loan is payable in two installments falling on 2012 and 2015. However, the company's liabilities rose slightly by BD 872 thousand to about BD 20.2 million counting for about 22.3% of total assets. The shareholders equity rose by 47.9% or BD 22.8 million, profits realized in 2008.

### Second - The Financial Performance:

The real estate market liquidity in the Kingdom of Bahrain rose to BD 1.45 Billion from the beginning of the year till the third quarter of 2008 (about BD 1.9 Billion on annual basis) compared to about BD 1.36 Billion in 2007. This indicates continued good performance of the real estate market in the Kingdom during the fourth quarter of 2008 despite the negative impact of the international financial turmoil.

The company took advantage of increased trading to timely liquidate part of its investments, realizing revenues of BD 27.8 million in 2008 compared to BD 10.3 million in 2007, up by 169.7% or BD 17.5 million. The quality of revenues also improved where profits from the sale of real estate investments counted for about 65% of the total revenues compared to 14% of the total revenues in 2007. Profits generated from change in fair value of investments counted for about 27% of the total revenues in 2008 against 71% in 2007. Revenues from rents amounted to about BD 1.4 million (5.1% of total revenues) down by 5% from BD 1.5 million in 2007 (14.5% of total revenues). The company is making painstaking efforts to increase this type of revenue; this will be possible after completion of some projects under development.

### Distribution of the sources of income in 2008



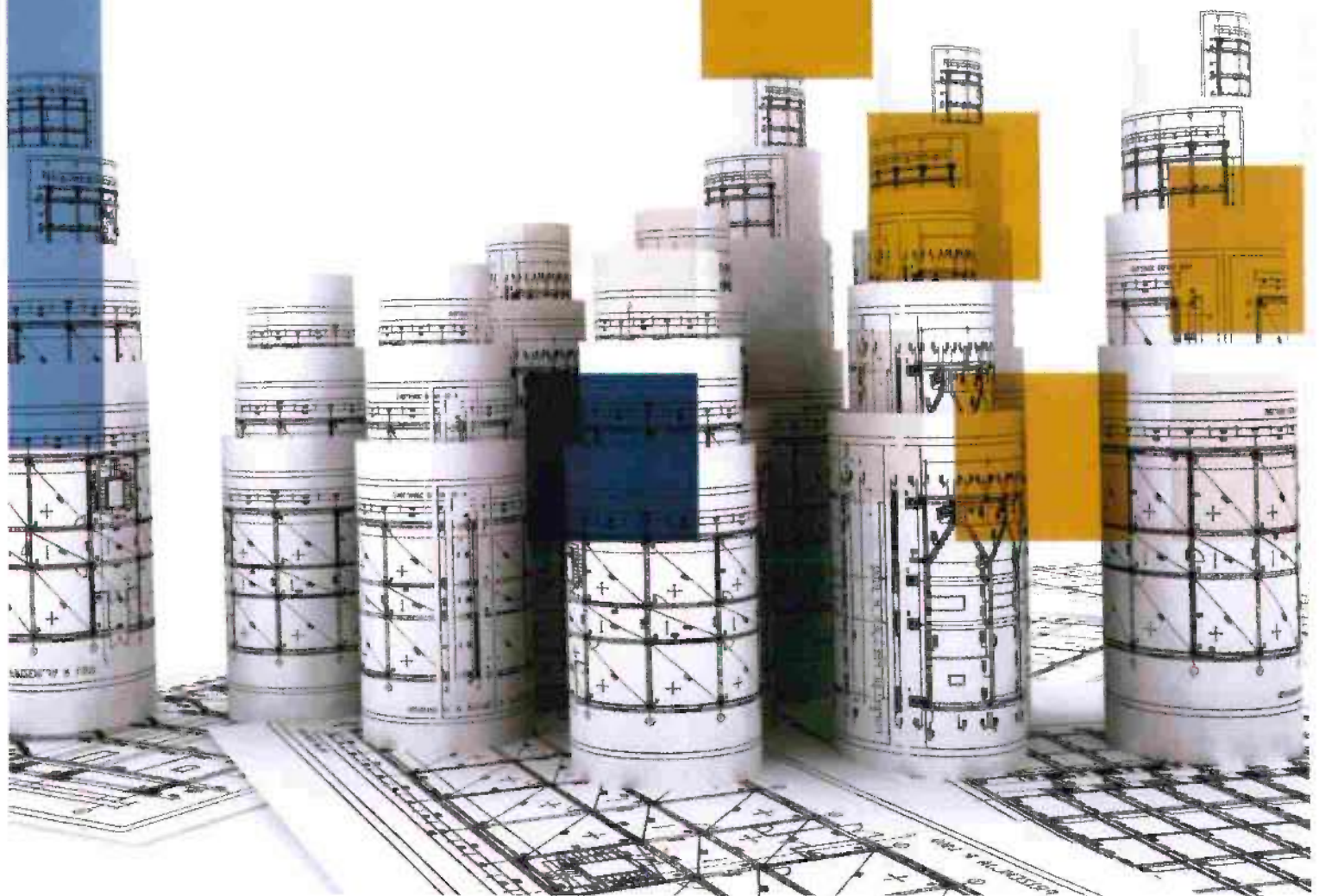
The company's total expenses in 2008 amounted to BD 1.9 million up by 72.6% compared to 2007. The financing expenses increased the most; the interest expenses counted for 44.9% of total expenses in 2008 amounting to BD 875.7 thousand against to BD 131.2 thousand in 2007. The other expenses including staff cost, administrative expenses, overheads and real estate expenses amounted to BD 1.075 thousand compared to BD 999 thousand in 2007 up by 7.6%.

As a result, the net profits amounted to BD 25.8 million, an increase of 181.6% compared to 2007. Earnings per share amounted to 77 Bahraini fils compared to 29 Bahraini fils in 2007. The profitability indicators such as the return on assets and return on equity posted record levels in 2008 with 28.5% and 36.7% respectively.

The following table shows a summary of some financial indicators during the period 2005 - 2008

|                   | 2005  | 2006  | 2007  | 2008  |
|-------------------|-------|-------|-------|-------|
| EPS – Fils        | 10.8  | 26.4  | 28.8  | 77.4  |
| Book value – Fils | 101.9 | 128.1 | 149.7 | 210.8 |
| ROA %             | 9.6%  | 20.5% | 13.7% | 28.5% |
| ROE %             | 10%   | 20.6% | 19.3% | 36.7% |
| ROC %             | 10.2% | 26.4% | 28.8% | 77.4% |

# Financial Statements



**First Bahrain Real Estate Company B.S.C. (closed)**  
**REPORT OF THE BOARD OF DIRECTORS AND**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**31<sup>ST</sup>. DECEMBER 2008**

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

We have audited the accompanying consolidated financial statements of First Real Estate Company B.S.C. (closed) ('the Company') and its subsidiary ('the Group') which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statements of income, cash flows and 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 consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 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 consolidated 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 2008 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.



14 January 2009  
Manama, Kingdom of Bahrain



## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors have pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2008.

Principal activities and review of business developments

The Group 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 Group made a profit of BD 25,837,081 during the year ended 31 December 2008 (2007: BD 9,173,526).

### Movement in retained earnings:

|                               | <b>2008</b>         | 2007        |
|-------------------------------|---------------------|-------------|
|                               | <b>BD</b>           | BD          |
| Balance as of 1 January       | <b>8,038,077</b>    | 5,010,580   |
| Profit for the year           | <b>25,837,081</b>   | 9,173,526   |
| Dividends proposed / paid     | <b>(25,042,500)</b> | (4,770,000) |
| Transfer to statutory reserve | <b>(2,583,708)</b>  | (917,353)   |
| Transfer to general reserve   | <b>(1,291,854)</b>  | (458,676)   |
| Balance as of 31 December     | <b>4,957,096</b>    | 8,038,077   |

### Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Group for the year ending 31 December 2009, will be submitted to the Annual General Meeting.

Signed on behalf of the Board



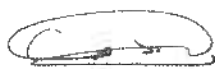
Chairman

14 January 2009

**FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)****CONSOLIDATED BALANCE SHEET**31<sup>st</sup> December 2008

|                                     | Notes | 2008<br>BD        | 2007<br>BD        |
|-------------------------------------|-------|-------------------|-------------------|
| <b>ASSETS</b>                       |       |                   |                   |
| <b>Non-current assets</b>           |       |                   |                   |
| Furniture, computers and vehicles   | 5     | 42,598            | 27,289            |
| Investment properties               | 6     | 47,014,841        | 55,886,231        |
| Investment in associate             | 7     | 3,592,750         | -                 |
| Available for sale investments      | 8     | 4,939,942         | -                 |
|                                     |       | <b>55,590,131</b> | <b>55,913,520</b> |
| <b>Current assets</b>               |       |                   |                   |
| Trade and other receivables         | 9     | 1,868,662         | 537,560           |
| Cash and cash equivalents           | 10    | 33,106,075        | 10,458,930        |
|                                     |       | <b>34,974,737</b> | <b>10,996,490</b> |
| <b>TOTAL ASSETS</b>                 |       | <b>90,564,868</b> | <b>66,910,010</b> |
| <b>EQUITY AND LIABILITIES</b>       |       |                   |                   |
| <b>Equity</b>                       |       |                   |                   |
| Share capital                       | 11    | 33,390,000        | 31,800,000        |
| Share premium                       | 12    | 27,241            | 27,241            |
| Statutory reserve                   | 13    | 4,695,918         | 2,112,210         |
| General reserve                     |       | 2,147,279         | 855,425           |
| Retained earnings                   |       | 4,957,096         | 8,038,077         |
| Proposed appropriations             | 14    | 25,042,500        | 4,770,000         |
|                                     |       | <b>70,260,034</b> | <b>47,602,953</b> |
| Minority Interest                   |       | 125,000           | -                 |
| <b>Total equity</b>                 |       | <b>70,385,034</b> | <b>47,602,953</b> |
| <b>Non-current liabilities</b>      |       |                   |                   |
| Wakala finance                      | 15    | 17,999,221        | 12,999,221        |
| Advance from tenants                |       | 548,000           | -                 |
|                                     |       | <b>18,547,221</b> | <b>12,999,221</b> |
| <b>Current liabilities</b>          |       |                   |                   |
| Trade and other payables            | 16    | 1,517,163         | 6,169,275         |
| Advances from tenants               |       | 115,450           | 138,561           |
|                                     |       | <b>1,632,613</b>  | <b>6,307,836</b>  |
| <b>Total liabilities</b>            |       | <b>20,179,834</b> | <b>19,307,057</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b> |       | <b>90,564,868</b> | <b>66,910,010</b> |

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of directors on 14 January 2009.



Mohammad Al Farhan  
Chairman



Abdulghaffar Abdulrahim Al Kooheji  
Vice Chairman

The attached notes 22 to 39 form part of these financial statements

**FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)****CONSOLIDATED STATEMENT OF INCOME**31<sup>st</sup> December 2008

|   | Notes | 2008<br>BD         | 2007<br>BD         |
|---|-------|--------------------|--------------------|
| <b>INCOME</b>                                   |       |                    |                    |
| Rental revenue                                  |       | 1,420,330          | 1,492,854          |
| Profit on disposal of investment properties     |       | 18,038,333         | 1,456,650          |
| Changes in fair values of investment properties |       | 7,574,429          | 7,287,588          |
| Wakala income                                   |       | 718,892            | 64,877             |
| Murabaha income                                 |       | 35,872             | -                  |
| Other income                                    |       | -                  | 1,942              |
|   |       | <u>27,787,856</u>  | <u>10,303,911</u>  |
| <b>EXPENSES AND OTHER CHARGES</b>               |       |                    |                    |
| Administrative expenses                         |       | (498,624)          | (476,411)          |
| Property expenses                               |       | (276,235)          | (337,919)          |
| Staff cost                                      |       | (168,870)          | (95,803)           |
| Board of directors remuneration                 |       | (111,908)          | (70,000)           |
| Consultancy and professional fees               |       | (11,122)           | (12,818)           |
| Depreciation                                    | 5     | (8,282)            | (6,198)            |
| Finance costs                                   |       | (875,734)          | (131,236)          |
|   |       | <u>(1,950,775)</u> | <u>(1,130,385)</u> |
| <b>PROFIT FOR THE YEAR</b>                      |       | <u>25,837,081</u>  | <u>9,173,526</u>   |

The attached notes 22 to 33 form part of these financial statements

**FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)****CONSOLIDATED CASH FLOWS STATEMENT**31<sup>st</sup> December 2008

|   | Notes | 2008<br>BD        | 2007<br>BD        |
|---|-------|-------------------|-------------------|
| <b>OPERATING ACTIVITIES</b>   |       |                   |                   |
| Profit for the year   |       | 25,837,081        | 9,173,526         |
| Adjustment for :  |       |                   |                   |
| Profit on disposal of property  |       | (16,038,333)      | (1,456,650)       |
| Depreciation  | 5     | 8,282             | 6,198             |
| Change in fair values of investment properties                            |       | (7,574,429)       | (7,287,588)       |
| Interest expense  |       | 875,734           | -                 |
| Investment income   |       | (754,764)         | (66,819)          |
| Adjustments to investment properties                                      |       | 1,097             | -                 |
| Operating profit before working capital changes                           |       | 354,668           | 368,667           |
| Working capital changes:  |       |                   |                   |
| Trade and other receivables   |       | (1,295,242)       | (412,620)         |
| Trade and other payables  |       | (4,704,194)       | 6,086,891         |
| Advances from tenants   |       | 524,889           | 8,479             |
| Net cash (used in) from operating activities                              |       | (5,119,879)       | 6,051,417         |
| <b>INVESTING ACTIVITIES</b>   |       |                   |                   |
| Purchase of fixed assets  | 5     | (23,591)          | (2,500)           |
| Investment income   |       | 718,904           | 66,819            |
| Addition to investment properties   |       | (3,431,834)       | (17,577,468)      |
| Proceeds from sale of investment properties                               |       | 37,928,029        | 8,778,619         |
| Investment in associate   |       | (3,592,750)       | -                 |
| Acquisition of available for sale investments                             |       | (4,901,000)       | (38,942)          |
| Minority interests arising on incorporation of Al Yal Real Estate Company |       | 125,000           | -                 |
| Net cash from (used in) investing activities                              |       | 26,822,758        | (8,773,472)       |
| <b>FINANCING ACTIVITIES</b>   |       |                   |                   |
| Wakala finance  | 15    | 5,000,000         | 12,999,221        |
| Dividend paid   |       | (3,180,000)       | -                 |
| Wakala finance profit expense   |       | (875,734)         | -                 |
| Net cash from (used in) financing activities                              |       | 944,266           | 12,999,221        |
| <b>INCREASE IN BANK BALANCES</b>  |       | <b>22,647,145</b> | <b>10,277,166</b> |
| Bank balances at the beginning of the year                                |       | 10,458,930        | 181,764           |
| <b>BANK BALANCES AT THE END OF THE YEAR</b>                               |       | <b>33,106,075</b> | <b>10,458,930</b> |

The attached notes 22 to 39 form part of these financial statements

**FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)**
**STATEMENT OF CHANGES IN EQUITY**

 31<sup>st</sup> December 2008

|  | Attributable to equity holders of the parent |                  |                      |                    |                      |                            |                   | Total equity BD   |
|--|--|------------------|----------------------|--------------------|----------------------|----------------------------|-------------------|-------------------|
|  | Share capital BD                             | Share premium BD | Statutory reserve BD | General reserve BD | Retained earnings BD | Proposed appropriations BD | Total BD          |                   |
| Balance at 1 January 2007                          | 30,000,000                                   | 27,241           | 1,194,857            | 396,749            | 5,010,580            | 1,800,000                  | 38,429,427        | 38,429,427        |
| Profit for the year                                | -  | -                | -                    | -                  | 9,173,526            | -                          | 9,173,526         | 9,173,526         |
| Bonus shares issued                                | 1,800,000                                    | -                | -                    | -                  | -                    | (1,800,000)                | -                 | -                 |
| Transfer to statutory reserve                      | -  | -                | 917,353              | -                  | (917,353)            | -                          | -                 | -                 |
| Transfer to general reserve                        | -  | -                | -                    | 458,676            | (458,676)            | -                          | -                 | -                 |
| Stock dividend                                     | -  | -                | -                    | -                  | -                    | -                          | -                 | -                 |
| Proposed dividends                                 | -  | -                | -                    | -                  | -                    | -                          | -                 | -                 |
| - cash   | -  | -                | -                    | -                  | (3,180,000)          | 3,180,000                  | -                 | -                 |
| - bonus shares                                     | -  | -                | -                    | -                  | (1,590,000)          | 1,590,000                  | -                 | -                 |
| Balance at 31 December 2007                        | 31,800,000                                   | 27,241           | 2,112,210            | 855,425            | 8,038,077            | 4,770,000                  | 47,602,953        | 47,602,953        |
| Profit for the year                                | -  | -                | -                    | -                  | 25,837,081           | -                          | 25,837,081        | 25,837,081        |
| Bonus shares issued                                | 1,590,000                                    | -                | -                    | -                  | -                    | (1,590,000)                | -                 | -                 |
| Transfer to statutory reserve                      | -  | -                | 2,583,708            | -                  | (2,583,708)          | -                          | -                 | -                 |
| Transfer to general reserve                        | -  | -                | -                    | 1,291,854          | (1,291,854)          | -                          | -                 | -                 |
| Dividend paid                                      | -  | -                | -                    | -                  | -                    | (3,180,000)                | (3,180,000)       | (3,180,000)       |
| Proposed dividends                                 | -  | -                | -                    | -                  | -                    | -                          | -                 | -                 |
| - cash   | -  | -                | -                    | -                  | (25,042,500)         | 25,042,500                 | -                 | -                 |
| Minority interests arising on business combination | -  | -                | -                    | -                  | -                    | -                          | 125,000           | 125,000           |
| Balance at 31 December 2008                        | <b>33,390,000</b>                            | <b>27,241</b>    | <b>4,695,918</b>     | <b>2,147,279</b>   | <b>4,957,096</b>     | <b>25,042,500</b>          | <b>70,260,034</b> | <b>70,385,034</b> |

The attached notes 22 to 39 form part of these financial statements.

## **FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31<sup>st</sup> December 2008

#### **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 Group 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 Group primarily operates in the Kingdom of Bahrain. The address of the Group'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.

The Group comprises of First Real Estate Company B.S.C. and the following subsidiary and associate as of 31 December 2008:

| <b>Company Name</b>               | <b>%<br/>shareholding</b> | <b>Country of<br/>incorporation</b> | <b>Year of<br/>incorporation</b> | <b>Industry</b> |
|-----------------------------------|---------------------------|-------------------------------------|----------------------------------|-----------------|
| Al Yal Real Estate Company W.L.L. | 50%                       | Kingdom of Bahrain                  | 2008                             | Real Estate     |
| Injazaat Business Management LLC  | 25%                       | United Arab Emirates                | 2006                             | Real Estate     |

#### **2) SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law.

The consolidated financial statements have been presented in Bahraini Dinars («BD») which is the functional currency of the Group.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

##### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

The financial statements of the subsidiary are prepared for the same reporting year as the parent company using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisition of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consolidation and book value of the share of the net assets acquired is recognised in goodwill.

#### **Changes in accounting policy and disclosure**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2008:

- *IFRIC 11 IFRS 2 - Group and Treasury Share Transactions*
- *IFRIC 12 - Service Concession Arrangements*
- *IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Group has also early adopted the following IFRS and IFRIC interpretations as of 1 January 2008:

- *IFRS 2 Share-based Payment (Revised) effective January 2009*
- *IFRS 8 Operating Segments effective 1 January 2009*
- *IAS 23 Borrowing Costs (Revised) effective 1 July 2008*
- *IFRIC 13 Customer Loyalty Programmes effective 1 July 2008*

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group, or presentation of the Group's consolidated financial statements, as none of these except IAS 23 apply to the Group's operations at this time.

#### *IAS 23 Borrowing Costs (Revised)*

The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's earlier policy was to capitalise the borrowing costs on qualifying assets and therefore this amendment does not have an impact on the financial position of the Group.

#### **Improvements to IFRSs**

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has early adopted amendments to the following standards. The adoption of these amendments did not have any effect on the financial performance or position of the Group and did not result in any changes to the disclosures in the Group's consolidated financial statements.

## **FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)**

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31<sup>st</sup> December 2008

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#### *IAS 1 Presentation of Financial Statements*

#### *IAS 16 Property, Plant and Equipment:*

#### *IAS 23 Borrowing Costs:*

#### *IAS 28 Investment in Associate:*

#### *IAS 31 Interest in Joint ventures*

#### *IAS 36 Impairment of Assets*

#### *IAS 38 Intangible Assets*

#### *IAS 1 Presentation of Financial Statements*

Assets and liabilities classified as held for trading in accordance with «IAS 39 Financial Instruments: Recognition and Measurement» are not automatically classified as current in the balance sheet. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.

#### *IAS 16 Property, Plant and Equipment:*

Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

#### *IAS 23 Borrowing Costs:*

The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

#### *IAS 28 Investment in Associate:*

If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment does not apply to the Group as it does not account for its associates at fair value in accordance with IAS 39.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This does not have any impact on the Group as this policy was already applied.

### **Investment in an associate**

The Group's investment in its associate is accounted for using the equity methods of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. the statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.



## **FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31<sup>st</sup> December 2008

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The share of profit of associates is shown on the face of the statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with the Group.

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

#### **Foreign currency translation**

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

#### **Financial assets**

##### *Initial recognition*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### **Available for sale investments**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments. After initial recognition, investments are remeasured at fair value except for investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Unrealised gains and losses are reported as a separate component in equity until the investments are derecognised or the investments are determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

## **FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31<sup>st</sup> December 2008

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#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and on hand, and short term deposits with original maturity of three months or less.

#### **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 consolidated 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 consolidated statement of income;
- b) For assets carried at amortised 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.

#### **Financial liabilities**

##### *Initial recognition*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial liabilities include trade and other payables, term loan and advances from tenants.

#### **Wakala finance and loans payable**

After initial recognition, interest and profit bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Interest and profit are charged to the income statement as it accrues. Accrued interest and profit are included in accruals in trade and other payables.

**Advance from tenants**

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

**Trade and other payables**

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

**Offsetting of financial instruments**

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

**Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

**Amortised cost of financial instruments**

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

**Derecognition of financial instruments**

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

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

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

**Furniture, computers and vehicles**

Furniture, computers and vehicles 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 |
| Vehicles  | 7 years |

## **FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31<sup>st</sup> December 2008

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The carrying values of furniture, computers and vehicles 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.

#### **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.

The Group enters into long term lease arrangements for property. Where these properties meet the requirements of «IAS 40 - Investment Properties», the leases are treated as finance leases and the properties are capitalised as investment properties at the present value of the minimum lease payments. In most cases these the lease payments for these properties are payable in full at the time the lease is initiated resulting in no finance lease liability.

#### **Provisions**

Provisions are recognised when the Group 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. Finance cost relating to qualifying assets are capitalised as part of that qualifying asset.

#### **Rental revenue**

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

### **3) STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and Consolidated and Separate Financial Statements
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements
- IAS 1 Revised Presentation of Financial Statements
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items
- IFRIC 15 Agreement for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

It is not expected the implementation of these revisions and amendments will have any impact on the Group's financial performance or position, however the implementation of the revisions to IAS 1 are expected to have an impact on the presentation and disclosures required in the consolidated financial statements of the Group.

### **IAS 1 Revised Presentation of Financial Statements**

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

### **Improvements to IFRSs**

The Group has early adopted some of the amendments to standards following the 2007 'Improvement to IFRSs' project (see Note 2). The Group has not yet adopted the amendments to the following standards and anticipates that these changes will have no material effect on the financial statements, however may result in minor changes in disclosures.

IFRS 7 Financial Instruments: Disclosures:

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:

IAS 10 Events after the Reporting Period:

IAS 16 Property, Plant and Equipment:

IAS 18 Revenue:

IAS 19 Employee Benefits:

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:

IAS 27 Consolidated and Separate Financial Statements:

IAS 29 Financial Reporting in Hyperinflationary Economies:

IAS 34 Interim Financial Reporting:

IAS 39 Financial Instruments: Recognition and Measurement:

IAS 40 Investment Property:

IAS 41 Agriculture:

### **IAS 40 Investment Property:**

Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the Valuation obtained increased by any recognised liability.

### **4) KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumption concerning the future and other key sources of estimation uncertainties at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below:

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Useful lives of furniture, computers and vehicles**

The Group'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 Group'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.

#### **Impairment of investments**

The Group's management reviews its investments for impairment. The assessment is carried out when there has been a significant or prolonged decline in the fair value below its cost or where objective evidence of impairment exists.

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|                            | Furniture<br>BD      | Computers<br>BD      | Vehicles<br>BD      | Total<br>BD          |
|----------------------------|----------------------|----------------------|---------------------|----------------------|
| Cost:                      |                      |                      |                     |                      |
| At 1 January 2008          | 27,028               | 8,538                | -                   | 35,566               |
| Additions                  | 5,961                | 8,775                | 8,855               | 23,591               |
| At 31 December 2008        | <u>32,989</u>        | <u>17,313</u>        | <u>8,855</u>        | <u>59,157</u>        |
| Depreciation:              |                      |                      |                     |                      |
| At 1 January 2008          | 4,947                | 3,330                | -                   | 8,277                |
| Provided during the year   | 4,398                | 2,883                | 1001                | 8,282                |
| At 31 December 2008        | <u>9,345</u>         | <u>6,213</u>         | <u>1,001</u>        | <u>16,559</u>        |
| Net carrying amount:       |                      |                      |                     |                      |
| <b>At 31 December 2008</b> | <b><u>23,644</u></b> | <b><u>11,100</u></b> | <b><u>7,854</u></b> | <b><u>42,598</u></b> |

|                            | Furniture<br>BD      | Computers<br>BD     | Vehicles<br>BD  | Total<br>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>-</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>-</u>        | <u>8,277</u>         |
| Net carrying amount:       |                      |                     |                 |                      |
| <b>At 31 December 2007</b> | <b><u>22,081</u></b> | <b><u>5,208</u></b> | <b><u>-</u></b> | <b><u>27,289</u></b> |

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31<sup>st</sup> December 2008**6) INVESTMENT PROPERTIES**

|  | <b>2008</b><br><b>BD</b> | 2007<br>BD  |
|--|--------------------------|-------------|
| Opening balance as at 1 January            | <b>55,886,231</b>        | 38,304,202  |
| Additions during the year                  | <b>3,483,916</b>         | 17,616,410  |
| Disposals during the year                  | <b>(19,889,696)</b>      | (7,321,969) |
| Transfer to available for sale investments | <b>(38,942)</b>          | -           |
| Expenditure written off                    | <b>(1,097)</b>           | -           |
|  | <b>39,440,412</b>        | 48,598,643  |
| Net gain from fair value adjustment        | <b>7,574,429</b>         | 7,287,588   |
|  | <b>47,014,841</b>        | 55,886,231  |

Investment properties are stated at fair values, which have been determined by directors based on the valuations performed by accredited independent valuers as at 31 December 2008. The surveyors are industry specialists in valuing these types of investment properties. The valuations undertaken are 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. On a number of properties the directors have taken a more conservative approach due to the current economic climate and have reduced in total the valuation performed by the independent valuers by BD 2,595,616.

The Group is currently developing existing investment properties. Upon completion of the development the Group intends to retain these properties for further capital appreciation and rental income. Included in investment properties is BD 4,274,425 (2006: BD 1,501,451) representing the cost of land and work in progress in developing the properties. These properties are not fair valued while development is in progress.

During the year the Group subdivided existing land held as investment property and sold a portion of this land to realise the gains from capital appreciation.

Investment properties include two land parcels under long term lease arrangements. The leases have been fully paid and are for a minimum of 50 years.

An amount of BD 38,942 representing the cost of certain unquoted investments has been transferred from investment properties to available for sale investments during the year. The transfer has occurred as the investment was originally thought to be in an investment property, however a company was incorporated last year to hold the property thus a reclassification of the investment was required.



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31<sup>st</sup> December 2008**7) INVESTMENT IN ASSOCIATE**

|                                | <b>2008<br/>BD</b>      | 2007<br>BD |
|--------------------------------|-------------------------|------------|
| <b>Investment in associate</b> | <b><u>3,592,750</u></b> | <u>-</u>   |

The Group acquired 25% interest in Injazzat Business Management LLC which will be involved in acquisition, sale and lease of investment properties in United Arab Emirates. The company was incorporated in May 2006 and has not yet commenced its operating activities.

**8) AVAILABLE FOR SALE**

|   | <b>2008<br/>BD</b>      | 2007<br>BD |
|---|-------------------------|------------|
| Available for sale investments - unquoted equity shares | <b><u>4,939,942</u></b> | <u>-</u>   |

The unquoted investments are carried at cost, as fair value cannot be reliably determined due to the unpredictable nature of future cash flows.

**9) TRADE AND OTHER RECEIVABLES**

|   | <b>2008<br/>BD</b>      | 2007<br>BD     |
|---|-------------------------|----------------|
| Trade receivable - Rent                   | <b>111,716</b>          | 164,365        |
| Advances to contractors                   | <b>1,193,520</b>        | -              |
| Amount due from a shareholder             | <b>343,269</b>          | 368,175        |
| Lease reservation fee                     | <b>113,382</b>          | -              |
| Other receivables                         | <b>64,210</b>           | -              |
| Interest receivable - short term deposits | <b>35,860</b>           | -              |
| Prepaid expenses                          | <b>5,710</b>            | 4,550          |
| Security deposit                          | <b>995</b>              | 470            |
|   | <b><u>1,868,662</u></b> | <u>537,560</u> |

Amounts due from a Shareholder of the Group represents commissions and other expenses paid by the Group on behalf of the shareholder. The balance is interest free and payable on demand.

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Other receivables represents prepayments to a consultant for an intended project. The Group have cancelled the project and intend to recover the outstanding amount.

As at 31 December, the aging analysis of trade receivables is as follows:

|             | Total<br>BD    | Neither past<br>due nor<br>impaired<br>BD | <i>Past due but not impaired</i> |                     |                     |                   |
|-------------|----------------|---|----------------------------------|---------------------|---------------------|-------------------|
|             |                |   | <30<br>days<br>BD                | 30-60<br>days<br>BD | 60-90<br>days<br>BD | >90<br>days<br>BD |
| <b>2008</b> | <b>111,716</b> | -   | <b>28,371</b>                    | <b>83,345</b>       | -                   | -                 |
| 2007        | 164,365        | 68,610                                    | 29,586                           | 32,849              | 23,614              | 9,706             |

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

**10) CASH AND BANK**

|                         | <b>2008<br/>BD</b>       | 2007<br>BD        |
|-------------------------|--------------------------|-------------------|
| Cash at banks*          | <b>28,106,075</b>        | 10,458,930        |
| Murabaha term deposit** | <b>5,000,000</b>         | -                 |
| Cash in hand            | -                        | 192               |
|                         | <b><u>33,106,075</u></b> | <u>10,458,930</u> |

\*The balancing amount is deposited in a Wakala investment account with a Bahrain branch of a Kuwaiti commercial bank at an effective profit rate of 4.75% which is credited to the bank account based on a Wakala agreement between the two parties. In 2007 the Group operated a normal current account which was non-interest bearing.

\*\*Murabaha term deposit is a short term deposits with a commercial bank in the Kingdom of Bahrain. The deposit is denominated in Bahraini Dinars with an effective profit rate of 4.5% and a maturity of not more than three months.

**FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31<sup>st</sup> December 2008**11) SHARE CAPITAL**

|  | <b>2008<br/>BD</b>       | 2007<br>BD        |
|--|--------------------------|-------------------|
| Authorised:  |                          |                   |
| 333,900,000 (2007: 318,000,000) ordinary shares of 100 Fils<br>(2007: 100 Fils) each | <u><b>33,390,000</b></u> | <u>31,800,000</u> |
| Issued, subscribed and paid up: At 1 January   | <b>31,800,000</b>        | 30,000,000        |
| Bonus issue during the year  | <u><b>1,590,000</b></u>  | <u>1,800,000</u>  |
|  | <u><b>33,390,000</b></u> | <u>31,800,000</u> |

The general assembly meeting of the shareholders of the Company held on March 2008 approved an increase in the share capital from BD 31,800,000 to BD 33,390,000 by way of issuance of 5% bonus shares amounting to BD 1,590,000.

**12) 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.

**13) 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.

**14) DIVIDENDS PAID AND PROPOSED**

A cash dividend of 75 fils per share, totalling BD 25,042,500 was proposed and has been submitted for approval at the Annual General Meeting.

In 2007 a cash dividend of 10 fils per share, totalling BD 3,180,000 and a bonus share issue amounting to BD 1,590,000 representing 5% of issued and paid-up share capital was proposed and was approved at the Annual General Meeting and were paid during the 2008 financial year.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31<sup>st</sup> December 2008**15) WAKALA FINANCE**

|                  | <b>2008<br/>BD</b>       | 2007<br>BD        |
|------------------|--------------------------|-------------------|
| Wakala finance 1 | <b>12,999,221</b>        | 12,999,221        |
| Wakala finance 2 | <b>5,000,000</b>         | -                 |
|                  | <b><u>17,999,221</u></b> | <u>12,999,221</u> |

***Wakala finance 1***

The finance arrangement is unsecured, carries a profit rate of Bidor plus 1.25% and is repayable in one lump sum payment on 1 November 2011. Profit is paid on a quarterly basis and is expensed to the income statement.

***Wakala finance 2***

The finance arrangement is secured by a first charge over certain land included in the Group's investment properties with a carrying value of BD 5,775,876 (2007: BD 2,243,057). The loan is repayable in two instalments falling on 2012 and 2015 and has a profit rate at BIBOR plus 1.25%. The profit is paid on a quarterly basis and is capitalised within investment properties. Accrued interest of BD 52,082 is included in trade and other payables.

Are these the correct fair values of the land

**16) TRADE AND OTHER PAYABLES**

|                                       | <b>2008<br/>BD</b>      | 2007<br>BD       |
|---------------------------------------|-------------------------|------------------|
| Trade payables                        | <b>381,925</b>          | 355,769          |
| Leasehold land payable                | -                       | 5,265,184        |
| Accrued expenses                      | <b>471,072</b>          | 538,440          |
| Retention money payable               | <b>459,231</b>          | -                |
| Amounts due to related parties        | <b>152,853</b>          | -                |
| Accrued interest                      | <b>52,082</b>           | -                |
| Current account with property manager | -                       | 9,882            |
|                                       | <b><u>1,517,163</u></b> | <u>6,169,275</u> |

Trade payables are generally non-interest bearing and are settled on 30 day terms.

In 2007 the Group entered into two long term land lease arrangements, the balance payable was paid during the year. The amounts are not shown as finance lease payables as the balance was due and payable and represents the net present value of all lease payments under the lease arrangement.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Retention money payable represents 10% of project costs incurred by the contractor retained by the Group until completion of the relevant project. The amount is non-interest bearing.

Amounts due to related parties represents BD 105,000 due to the Board of Directors for their remuneration and BD 47,853 due to a shareholder of the Group. The amounts are non-interest bearing and payable on demand.

**17) COMMITMENTS****Capital expenditure commitment**

Authorised capital expenditure contracted for at the balance sheet date amounted to BD 3,904,770 (2007: BD 4,979,319).

**18) RELATED PARTY TRANSACTIONS**

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

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

- The Group made an advance payment to a shareholder of the Group for construction expenditure totalling BD 605,600. Of this BD 156,558 is unrecovered. Total payments made to the shareholder for 2008 was BD 3,036,667 (2007: BD 1,103,664).
- Management fees of BD 400,000 (2007: BD 400,000) payable to shareholders has been included as accrued expenditure as at 31 December 2008. The expense has been included in administration expenses.
- Total building expenses paid to a company related to a shareholder were BD 183,562 (2007: BD 115,227).
- A company related to a shareholder acts as property manager on an investment property for the company. There was net rent receivable of BD 30,929 (2007: Nil) as at 31 December 2008 relating to this property.

For amounts due to related parties, see note 16.

For amounts due from related parties, see note 9.

**Compensation of key management personnel**

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

|                                    | <b>2008</b>    | 2007   |
|------------------------------------|----------------|--------|
|                                    | <b>BD</b>      | BD     |
| Short term benefits                | <b>111,908</b> | 70,594 |
| Employees' end of service benefits | <b>431</b>     | 1,063  |

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**19) RISK MANAGEMENT****Interest rate risk**

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

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

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate loan held at 31 December 2008.

There is no impact on the Group's equity.

|             | <b>Increase/<br/>decrease in<br/>basis points</b> | <b>Effect on<br/>profit for<br/>the period<br/>BD</b> |
|-------------|---|---|
| <b>2008</b> |   |   |
| <b>BD</b>   | <b>+10</b>  | <b>(17,999)</b>                                       |
| <b>BD</b>   | <b>-10</b>  | <b>17,999</b>   |
| <br>2007    |   |   |
| BD          | +10   | (3,250)   |
| BD          | -10   | 3,250   |

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

The table below summarizes the maturities of the Group's undiscounted financial liabilities at 31 December 2008, based on contractual payment dates and current market's interest rates.

| Year ended 31 December 2008     | Less than<br>3 months<br>BD | 3 to 12<br>months<br>BD | 1 to 5<br>years<br>BD | More than<br>5 years<br>BD | Total<br>BD       |
|---------------------------------|-----------------------------|-------------------------|-----------------------|----------------------------|-------------------|
| Wakala finance                  | 301,424                     | 904,272                 | 18,214,845            | 2,709,331                  | 22,129,872        |
| Account payable and<br>accruals | 1,517,163                   | -                       | -                     | -                          | 1,517,163         |
| <b>Total</b>                    | <b>1,818,587</b>            | <b>904,272</b>          | <b>18,214,845</b>     | <b>2,709,331</b>           | <b>23,647,035</b> |
| Year ended 31 December 2007     | Less than<br>3 months<br>BD | 3 to 12<br>months<br>BD | 1 to 5<br>years<br>BD | More than<br>5 years<br>BD | Total<br>BD       |
| Wakala finance                  | 217,691                     | 653,074                 | 15,538,955            | -                          | 16,409,720        |
| Account payable<br>and accruals | 3,467,710                   | 1,900,782               | 800,783               | -                          | 6,169,275         |
| <b>Total</b>                    | <b>3,685,401</b>            | <b>2,553,856</b>        | <b>16,339,738</b>     | <b>-</b>                   | <b>22,578,995</b> |

**Credit risk**

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

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

**Currency risk**

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

**20) 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.

