FIRST
Real Estate Co. B.S.C.
Acquisition • Development • Management

2012

ANNUAL REPORT

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FIRST

Real Estate Co. B.S.C.

Acquisition • Development • Management

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

BOARD OF DIRECTORS

Mohammed Ibrahim Al Farhan
Chairman

Abdulghaffar Abdulrahim Al-Kooheji
Vice Chairman

Hamad Abdulaziz Al Shaya
Board Member

Mohamed Ahmad Al-Qassimi
Board Member

Ahmad Saoud Al Sumait
Board Member

Gerard Snabian
Board Member

Mohamed Abdul-Hameed Al-Marzook
Board Member

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CHAIRMAN'S MESSAGE

Dear Shareholders, of First Real Estate Co.

I am pleased to present to you, on behalf of my fellow members of the Board, the annual report of First Real Estate Co. including the results of activities for the fiscal year ending on 31st December 2012.

This was another year of challenges for the Kingdom of Bahrain due to the political crisis, which still opens chapters of difficulties from time to time. However, the Government is still making unwavering efforts towards achieving national reconciliation to ensure political stability supported by successive reform programs that would return the country to the stability that Bahrain had enjoyed in the past, which will in turn reflect on the various economic sectors.

On the other hand, the implications of the global financial crisis are still casting shadows over the various markets, including the real estate sector, not to mention the U.S. and European sovereign debt crisis emerging on the global markets. The GCC region remains unaffected by severe repercussions of this successive crisis, though some sectors, especially the real estate sector, had to face a remarkable decline in capital values and real estate values as well as rent values. However, First Real Estate Company kept working on a number of projects. In the first quarter of this year, with 50% contribution from one of its subsidiary companies, it started the construction of a new residential tower in Al Seef Commercial Area. The tower will consist of 25 floors and contain 133 fully furnished flats equipped with all requirements as per the Bahraini local market. The project is due for completion in the third quarter of 2014. Also as part of the company's expansion policy, it started development of the industrial land at Al Hidd area (G26). This project will comprise of three fully equipped commercial warehouses. The first warehouse is due to be completed in the first quarter of 2013. It would be appropriate to note here that the company's assets enjoy excellent standing as the company's properties are almost fully occupied while at the same time part of the company's loans has been repaid.

At the financial level, the company's assets totaled BD 70,152,547 as at the end of 2012 compared to BD 71,015,207 as at the end of 2011, decreased 1%. Shareholders equity amounted to BD 53,056,513 as at the end of 2012 compared to BD 51,758,983 as at the end of 2011, increased by 2.5%. Revenues amounted to BD 2,984,495 in 2012 against BD 3,232,949 in 2011 decreased by 7.5% while expenses amounted to BD 2,449,860 compared to BD 3,006,023 in 2011 decreased by 18.5%. This yields a net profit of BD 534,635 in 2012 against BD 226,926 in 2011, increased by 136%.

As for future plans, the company will continue to work on the projects it has already started and at the same time explore suitable opportunities to enhance its income resources and assets value watching for positive changes in this instrumental sector at the local and regional levels.

Finally, I would like to extend, on behalf of the members of the Board and staff members, our sincere gratitude and appreciation to our shareholders for their valuable confidence and continued support.

I would like also to thank our management and all staff members for their dedicated efforts towards more achievements.

Thank you,

Kindest Regards

Mohammad Ibrahim Al-Farhan
Chairman of the Board

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 the previous years at procuring a broader field of investments by expanding its focus beyond the residential market to the commercial and warehouse market.

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

STRATEGY

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

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

VISION

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

MISSION STATEMENT

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

Company's Projects

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

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

I. Income Generating Properties

Kingdom of Bahrain

Juffair Compound 1

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

Juffair Compound 2

The 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.

The 100 Residence Tower, Al Fateh Area

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

Warehouse at the Bahrain Investment Wharf, Al Hidd Area

In 2007, the Company acquired a strategically situated land for investment purposes known as G28, covering a total area of approximately 45,247 square meters at the Bahrain Investment Wharf. The Company signed a 15 year build-to-suit warehouse contract agreement with an investor for developing the land into a warehouse with a total built-up area of 31,000 square meters. The warehouse was completed and handed over to the investor in August 2009, and is considered to be one of the Company's most important income producing projects.

United Arab of Emirates

Labour Accommodation at Muhaisnah Area – Dubai

In October 2007, and in alliance with Injazzat Real Estate Development Company, the Company acquired a labour accommodation building in Muhaisnah area with a total area of 5,287 square meters. The building comprises of two floors containing a total of 397 rooms which were refurbished in 2010. The project is fully leased.

II. Land Trading and Development

Kingdom of Bahrain

Al Seef Land - Al Seef District

In September 2005, the Company, in equal partnership with Dhow Real Estate Company, acquired ownership in a strategically located land in Al Seef District north of Bahrain City Centre. In 2008, the land was subdivided into 21 plots covering an area of 510,881 square feet. The Company decided to take advantage of the land price appreciation in Al Seef area by selling thirteen of its plots, covering a total area of 336,203 square feet, generating a substantial income to the Company. Meanwhile, the Company decided to keep the remaining eight plots for development or trading purposes.

Al Seef Residential Project - Al Seef District

In equal partnership with a specialized real estate company, the Company is developing one plot of Al Seef Land, covering an area of 1,553 square meters, into a luxurious residential tower of 25 floors and a total area of 19,178 square meters. The project comprises 130 fully furnished residential units plus a restaurant, gym, commercial centre and a swimming pool. Construction of the project commenced in April 2012. Overlooking the sea, the project is situated in one of the most strategic locations in Al Seef area, just a few meters from City Center and Al Seef Mall. The project is due for completion in April 2014.

(G26) Bahrain Investment Wharf - Al Hidd Area

The Company owns this strategically located land within Bahrain Investment Wharf project allocated for the establishment of warehouses. It is known as G26 and covers an area of 58,222 square meters. The project will comprise three warehouses with a total built-up area of about 26,000 square meters. Development of the first warehouse has already started with a total built-up area of about 8,700 square meters and is due for completion in March 2013.

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 resell this land.

Marsa Al Seef - Al Seef Area

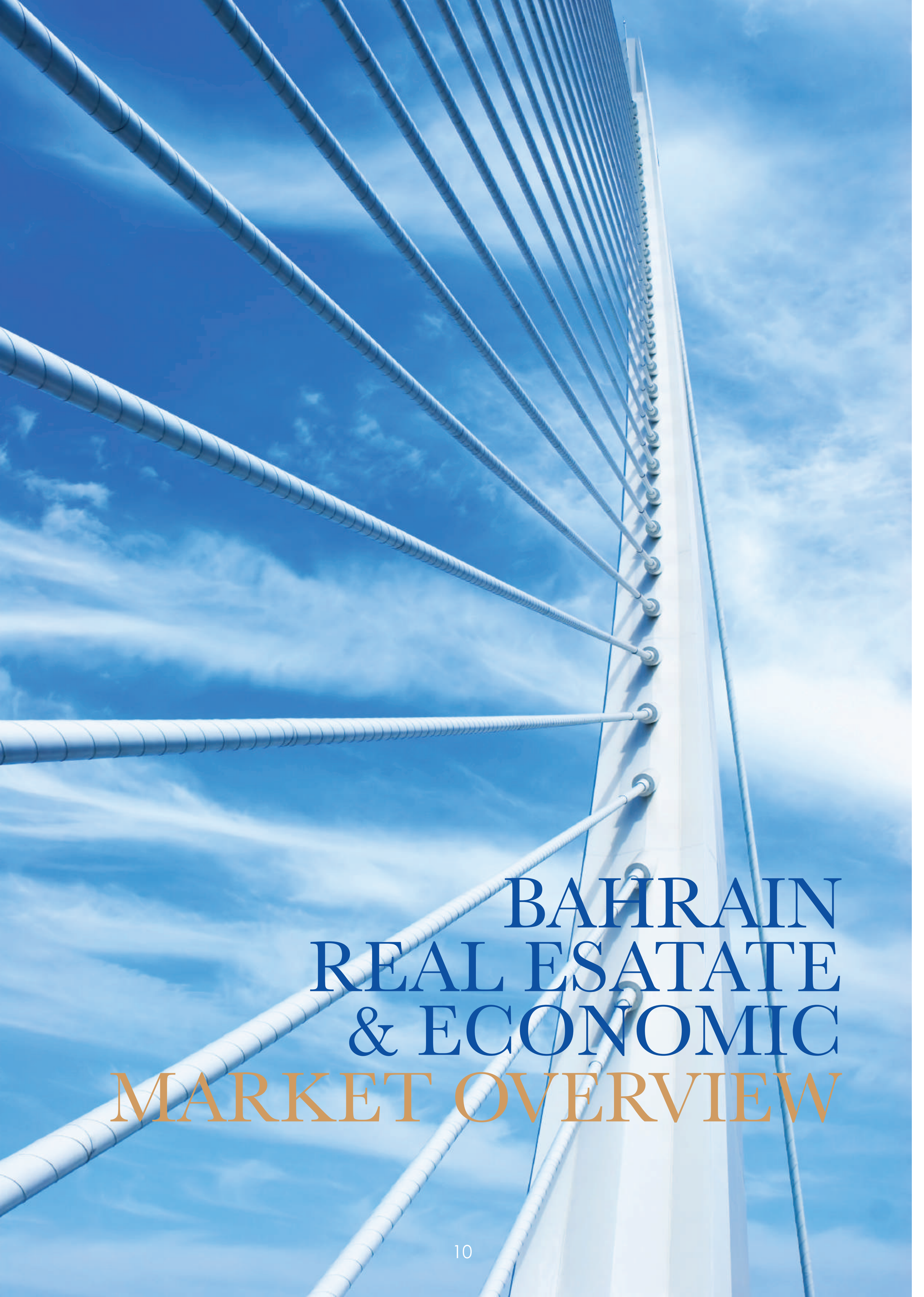
In September 2008, the Company acquired equity shares in Marsa Al Seef Investment Company Limited which was established in 2008 with a paid up capital of US$ 531,000,000. The company is owned by Global Banking Corporation B.S.C., Bahrain.

The company's activities include developing residential towers, office towers and leisure and entertainment facilities over a total area of 25,833,600 square feet located in the northern part of Al Seef area. The company is currently working on phase one of the project, covering reclamation of the land which extends into the sea.

United Arab Emirates

Land in Jebal Ali - Dubai

As part of the Company's strategy to expand its projects at the regional level, the Company acquired in August 2008, through its 25% share in Al Sanbouk Real Estate L.L.C., two plots of land with a total area of 41,980 square feet in Jebal Ali, Dubai. The plots are to be developed into a labour accommodation complex containing 576 rooms. However, due to the current economic situation, the project has been put on hold until the market recovers.



BAHRAIN
REAL ESATATE
& ECONOMIC
MARKET OVERVIEW

Performance of the local economy:

The Bahraini economy was not far from the impact of the Arab Spring, where the unstable political situation in Bahrain has been continuing for twenty two months in a row. This had its impact on GDP growth, with the real growth declining in 2011 to about 1.9%, marking the lowest real growth rate achieved by the economy over the last decade. The real growth rates over the past ten years ranged between the highest limit of about 8.4% in 2007, and the minimum of about 2.5% in 2009. Real GDP growth is projected to rise in 2012 to about 3.9%, but would fall to about 3.6% in 2013. Although these two rates are positive, they are still below normal levels for the Bahraini economy. It is worth noting that the economy did not shrink (negative real growth), unlike the economies of some Arab countries that witnessed political fluctuations. In other words, real growth remaining positive in itself might be a positive indication given the challenging circumstances.

The Bahraini government adopts an expansionary fiscal policy, which comes at the expense of the budget deficit. The recent budget deficits began in 2009 with a rate of about -6% of GDP. This was partly due to the repercussions of the global economic crisis. Thereafter, the deficit declined to about -4.8% in 2010 and to about -3.5% in 2011. It is expected to continue to decline to about -1% in 2012. This indicates government spending that is under control relative to revenues. The public debt, which is total budget deficits accumulated over the years, remains within an acceptable rate of about 50% of GDP.

Inflation is still within acceptable rates in view of the pegging of the Bahraini Dinar to the US Dollar. This means the exclusion of the exchange rate tool in the face of inflation. The openness of the Bahraini economy to the world allows for a significant influence in prices of world commodities and services. In that context, inflation remained under control with the inflation rate for the first ten months of 2012 standing at about 2.9%, while it had culminated in the years 2007 and 2008 at about 3.4% and 5.1%, respectively. Inflation is expected to remain under control in the near future ranging between 3% and 4%, taking into consideration the possible overheating of some of the world's economies and their potential impact on the growing demand for food and other basic commodities, which might lead to inflationary pressures in those markets.

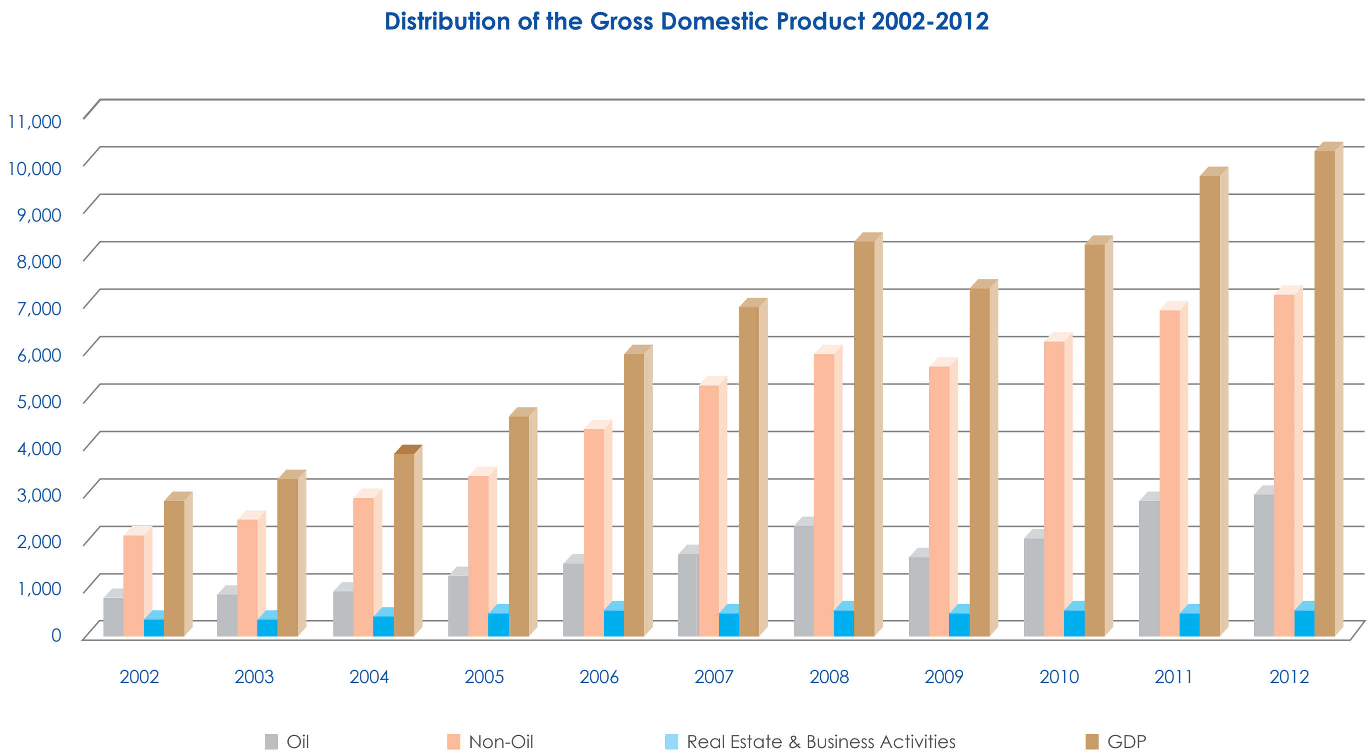
The Bahraini current account kept on the surplus side, reaching about US$ 3.3bn in 2011 or about 12.8% of GDP. This rate touches the highest limits of the rates commonly seen in the Bahraini economy. The surplus in the current account is projected to continue in 2012 and 2013, reaching about US$ 3bn and US$ 1.8bn, respectively. These indicators suggest relative stability for Bahrain's economy relative to the world economy. Stability in itself is a positive sign in view of turbulent local and regional conditions.

All the above indicates that the repercussions of the global financial crisis and the implications of the disorders going around in the region, as well as the local political turmoil, have all impacted the economy of Bahrain. Despite that, current performance has surpassed previous expectations. Although challenges at the international, regional and local levels persist, the forecasts of international institutions and economic reports suggest some improvement may be seen in these indicators in the near future.

Second: performance indicators of the local real estate market

The Central Bank of Bahrain's data and the Economist Intelligence Unit's report indicate that the real estate activities and business services sector's contribution to GDP has increased gradually over the years 2002 - 2012, at a compound annual growth rate of around 5.4%, reaching BD 528 million in 2012 compared to about BD 310.7 million in 2002. This occurred with the GDP achieving a compound annual growth rate of about 13.5% during the same period, reaching about BD 10,251 million in 2012 compared to about BD 2,882 million in 2002. The contribution of the real estate activities and business services sector to GDP fell down by about 5.1% in 2012 compared to 10.8% in 2002. The non-oil sectors achieved a compound annual growth rate of 13.1% (70.4% of GDP in 2012), compared to a compound growth of around 14.7% for the oil sector during the same period (29.6% of GDP in 2012).

Development of GDP (2002-2012)

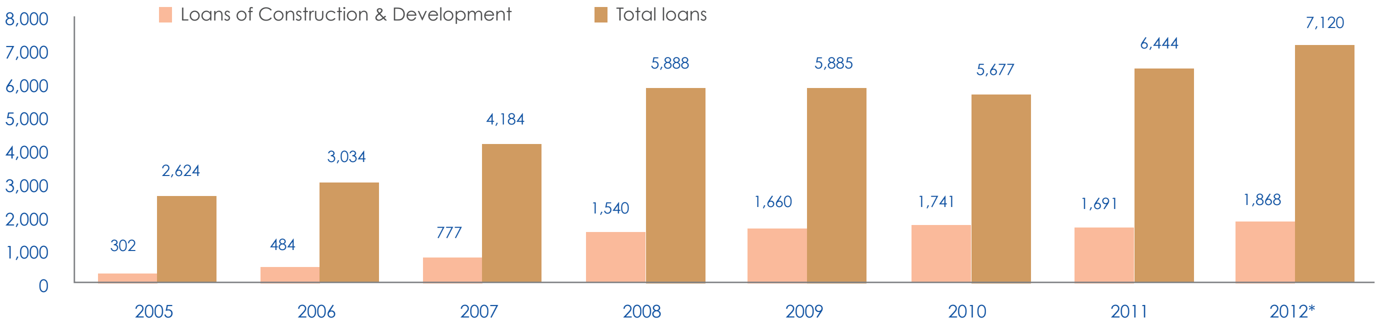


Data of 2012 from the Economist Intelligence Unit's report - December 2012.

The construction and reconstruction loans according to the data available up to March of 2012 and estimates of the end of 2012 totaled about BD 1.87 billion, or about 26.2% of the total loans of BD 7.1 billion, compared to its level at the end of 2011 of about BD 1.69 billion, up by about 10.5%

Construction and reconstruction loans compared to total loans and facilities

Loans and credit facilities distributed according to economic sectors with the exception of banks (BD billion)



Data up to 2012 - Central Bank of Bahrain.

* 2012 data based on actual figures as of the end of March 2012 and estimates for the whole of 2012.

The construction permits during the first six months of 2012 recorded about 2.3 thousand permits or about 9.0 thousand permits (calculated on an annualized basis). This represents a growth of about 16.3% compared to 2011, when the number reached 7.8 thousand permits.
Comparison and distribution of total construction permits

Comparison and distribution of total construction permits

Construction Permits	2008	of total %	2009	of total %	2010	of total %	2011	of total %	2012*	of total %
Additions	5204	44.9%	5786	56.4%	5,429	54.2%	4,119	53.0%	4,832	53.5%
Demolition	1136	9.8%	652	6.4%	788	7.9%	605	7.8%	556	6.2%
Demolition and Construction	115	1.0%	65	0.6%	69	0.7%	57	0.7%	68	0.8%
New Construction	3,847	33.2%	2,946	28.7%	2,788	27.8%	2,137	27.5%	2,384	26.4%
Reclamation	35	0.3%	10	0.1%	14	0.1%	8	0.1%	36	0.4%
Renovation	1242	10.7%	1019	9.9%	925	9.2%	844	10.9%	1,164	12.9%
Total Construction Perimits	11,579	100%	10,253	100%	10,013	100%	7,770	100%	9,040	100%

Data available up to March 2012 (on annualized basis) Central Bank of Bahrain.

* 2012 data based on actual figures as of the end of March 2012 and estimates for the whole of 2012.

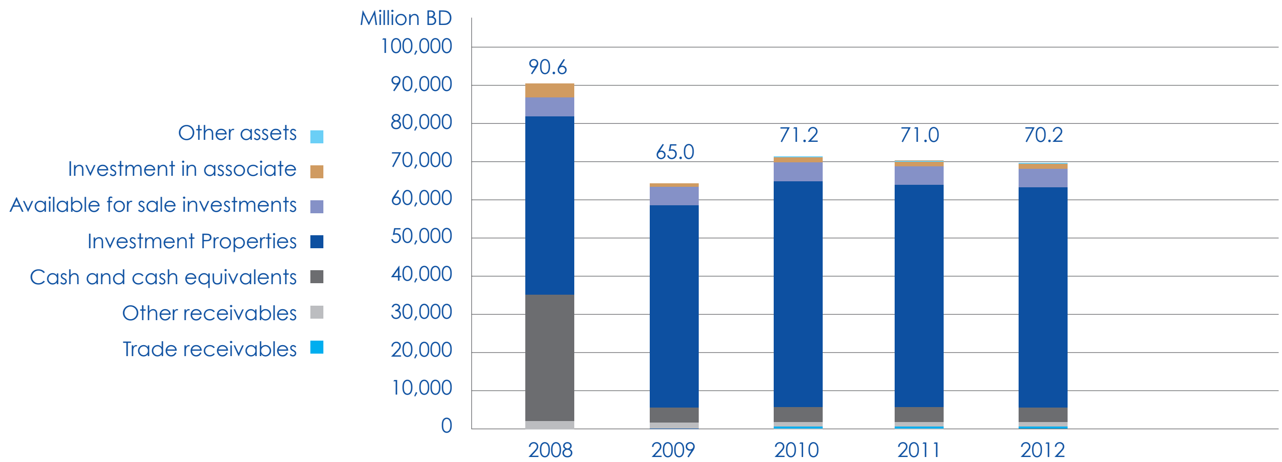
The number of new permits amounted to about 596 permits or about 2.4 thousand permits on annualized basis, compared to 2.1 thousand permits in 2011, up by 11.6%. This comparison still needs to be adjusted when the actual figures for 2012 are published.

Financial Performance

First: The Financial Position

The company's assets in 2012 stood at about BD 70.2 million (BD 71 million in 2011), and it should be noted that all the assets and investments of the company are real estate investments and investments in real estate companies. Real estate investments have risen by an estimated BD 1.6 million, reaching BD 60.1 million (85.7% of total assets), compared with BD 58.5 million in 2011 (82.4% of total assets), while the value of cash fell due to the decline in the item cash and bank balances by about 48.7% down to BD 2.6 million from about BD 5.1 million in 2011.

Changes in First Real Estate assets during 2008-2012



% Total assets of	2008	2009	2010	2011	2012
Trade receivables	0.1%	0.04%	0.4%	0.5%	0.5%
Other receivables	1.9%	1.9%	1.8%	1.2%	1.7%
Cash and cash equivalents	36.6%	6.0%	5.5%	7.1%	3.7%
Investment Properties	51.9%	82.3%	83.6%	82.4%	85.7%
Available for sale investments	5.5%	7.6%	6.9%	6.9%	7.0%
Investment in associate	4.0%	2.1%	1.8%	1.8%	1.4%
Other assets	0.05%	0.1%	0.1%	0.04%	0.02%
Total Assets	%100	%100	%100	%100	%100

The total liabilities of the company reached BD 17.1 million, which is lower than in 2011 when liabilities amounted to about BD 19.3 million. This decline was due to the company repaying part of the funding granted by one of the banks, where the company succeeded in negotiating with creditor banks for rescheduling the main funding worth BD 12.9 million from short-term to long-term loans to be paid in November 2018.

The equity of the parent company improved by about BD 0.539 million, to reach about BD 46.9

million, and this was due to an increase of retained earnings by about BD 0.485 million reaching BD 6.5 million as compared to BD 6 million in 2011. As a result, the book value of the company's shares reached 140.6 fils as compared to 139 fils in 2011.

II. Financial Performance:

The company achieved in 2012 revenues amounting to about BD 2.98 million, compared to BD 3.23 million in 2011. Rental income contributed 97.9% of total revenues (BD 2.92 million) as compared with BD 3.14 million, 97.1% of the total revenue, in the previous year.

Expenses declined by about 18.5% representing about BD 2.45 million in 2012, as compared to about BD 3 million in 2011. This was due to the decline in the provisions item required for the change in fair value of real estate, investment which amounted to about BD 0.439 million in 2012 as compared to BD 1.16 million in 2011. Financing expenses also declined by an estimated amount of BD 0.091 million reaching about BD 0.821 million as a result of repaying part of the funding granted to the company during the year. Within the same level of decline in rental income, real estate expenses were also reduced to about BD 0.697 million in 2012 as compared to BD 0.762 million in 2011.

The company's total profits reached about BD 0.535 million by the end of 2012, compared with BD 0.227 million in 2011, while net profits attributable to shareholders of the parent company reached about BD 0.538 million as compared with about BD 0.649 million BD in 2011. Earnings per share reached 1.6 fils in 2012 as compared with 1.9 fils in 2011.

The following table shows a summary of some financial indicators during the period (2008-2012):

Financial Ratios	2008	2009	2010	2011	2012
Earnings Per Share-Fils	77.4	0.5	1.1	1.9	1.6
Book Value-Fils	210.4	135.9	137.0	139.0	140.6
ROE	43.8%	0.3%	0.8%	1.4%	1.2%
ROA	32.8%	0.2%	0.3%	0.3%	0.8%
ROC	79.3%	0.5%	1.1%	1.9%	1.6%

Financial Statement

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

Report Of The Board Of Directors And
Consolidated Financial Statements
31 December 2012

FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)
REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has the pleasure in submitting its report and the audited consolidated financial statements for the year ended 31 December 2012.

Principal activities and review of business developments

The Group is engaged in the acquisition, development, renting out and sale of high quality, stable and secure real estate investment opportunities in the Kingdom of Bahrain and other Gulf Co-operation Council countries.

The Group made a net profit of BD 534,635 during the year ended 31 December 2012 (2011: BD 226,926) of which a profit of BD 538,805 is attributable to the equity holders of the parent (2011: BD 649,059) and a loss of BD 4,170 is attributable to the non-controlling interests (2011: a loss of BD 422,133).

Movement in retained earnings:

	2012 BD	2011 BD
Balance as of 1 January	**6,018,810**	5,434,657
Profit for the year	**534,635**	226,926
Non controlling interest	**4,170**	422,133
Transfer to statutory reserve	**(53,881)**	(64,906)
Balance as of 31 December	**6,503,734**	6,018,810

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 2013, will be submitted to the Annual General Meeting.

Signed on behalf of the Board

Chairman
10 April 2013

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

Report on the financial statements

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 statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Director’s› responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s› responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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’ judgement, 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 control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity›s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated 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 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law, we report that:

a) the Company has maintained proper accounting records and the financial statements are in agreement therewith; and

b) the financial information contained in the report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company’s memorandum and articles of association during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Ernst + Young

10 April 2013
Manama, Kingdom of Bahrain

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 BD	2011 BD
Assets			
Non-current assets			
Furniture, equipment and vehicles	5	**15,004**	26,424
Investment properties	6	**60,090,169**	58,492,142
Investments in associates	7	**972,713**	1,253,630
Available for sale investments	8	**4,929,138**	4,932,154
		66,007,024	64,704,350
Current assets			
Trade and other receivables	9	**1,540,917**	1,234,907
Cash and cash equivalents	10	**2,604,606**	5,075,950
		4,145,523	6,310,857
TOTAL ASSETS		**70,152,547**	71,015,207
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**33,390,000**	33,390,000
Share premium	12	**27,241**	27,241
Statutory reserve	13	**4,868,717**	4,814,836
General reserve		**2,155,826**	2,155,826
Foreign currency translation reserve	14	**(2,740)**	(2,630)
Retained earnings		**6,503,734**	6,018,810
Equity attributable to the equity holders of the parent		**46,942,778**	46,404,083
Non-controlling interests		**6,113,735**	5,354,900
Total equity		**53,056,513**	51,758,983
Non-current liabilities			
Wakala finance	15	**14,957,587**	2,500,000
Advances from tenants	16	**490,452**	502,200
		15,448,039	3,002,200
Current liabilities			
Wakala finance	15	**541,634**	15,499,221
Trade and other payables	17	**883,161**	359,914
Advances from tenants	16	**223,200**	394,889
		1,647,995	16,254,024
Total liabilities		**17,096,034**	19,256,224
TOTAL EQUITY AND LIABILITIES		**70,152,547**	71,015,207

Mohammad Al Farhan
Chairman

Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman

The attached notes 1 to 21 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2012

	Notes	2012 BD	2011 BD
INCOME			
Rental revenue		2,923,107	3,140,109
Murabaha income		37,523	64,431
Wakala income		16,237	32
Other income		7,628	28,377
		2,984,495	3,232,949
EXPENSES AND OTHER CHARGES			
Finance charges	15	821,846	913,043
Property expenses		696,871	761,941
Change in fair values of investment properties	6	439,198	1,159,287
Share of loss of associates	7	280,807	3,661
Administrative expenses		47,323	50,698
Staff costs		138,758	92,362
Consultancy and professional fees		13,272	12,402
Depreciation	5	11,785	12,629
		2,449,860	3,006,023
PROFIT FOR THE YEAR		534,635	226,926
OTHER COMPREHENSIVE LOSS			
Foreign currency translation		(110)	(139)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		534,525	226,787
Profit (loss) attributable to:			
Equity holders of the parent		538,805	649,059
Non-controlling interests		(4,170)	(422,133)
		534,635	226,926

The attached notes 1 to 21 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2012

	Notes	2012 BD	2011 BD
OPERATING ACTIVITIES			
Profit for the year		**534,635**	226,926
Adjustments for :			
Depreciation	5	**11,785**	12,629
Change in fair values of investment properties	6	**439,198**	1,159,287
Share of loss of associates	7	**280,807**	3,661
Finance costs	15	**821,846**	913,043
Murabaha and wakala income		**(53,760)**	(64,463)
Operating profit before working capital changes		**2,034,511**	2,251,083
Working capital changes:			
Trade and other receivables		**(302,572)**	299,610
Trade and other payables		**(25,139)**	(275,840)
Advances from tenants		**(183,437)**	(307,411)
Net cash from operating activities		**1,523,363**	1,967,442
INVESTING ACTIVITIES			
Purchase of furniture, equipment and vehicles	5	**(365)**	(267)
Murabaha and wakala income received		**50,322**	65,408
Additions to investment properties	6	**(1,396,413)**	(131,518)
Term deposit with maturity of more than three months	10	**(518,472)**	-
Refund of available for sale investments		**3,016**	7,788
Net cash used in investing activities		**(1,861,912)**	(58,589)
FINANCING ACTIVITY			
Wakala finance paid		**(2,500,000)**	-
Finance costs paid		**(914,272)**	(809,716)
Additional contribution by non-controlling interest		**763,005**	61,260
Net cash used in financing activities		**(2,651,267)**	**(748,456)**
INCREASE IN CASH AND CASH EQUIVALENTS		**(2,989,816)**	1,160,397
Cash and cash equivalents at the beginning of the year		**5,075,950**	3,915,553
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	**2,086,134**	5,075,950

Non cash items:

1) Trade and other payables exclude the effect of unpaid wakala finance costs for the year amounting to BD 55,901 (31 December 2011: BD 148,327) and the effect of unpaid payable to contractors as of year end amounting to BD 640,812 (31 December 2011: nil).

2) Trade and other receivables include the effect of accrued profit not yet received on short term deposits for the year amounting to BD 7,758 (31 December 2011 : BD 4,320).

3) Additions to investment properties includes the effect of unpaid payable to contractors as of year end amounting to BD 640,812.

The attached notes 1 to 21 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2012

		Attributable to equity holders of the parent								
		Share capital	Share premium	Statutory reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Notes	BD	BD	BD	BD	BD	BD	BD	BD	BD
Balance at 1 January 2012		**33,390,000**	**27,241**	**4,814,836**	**2,155,826**	**(2,630)**	**6,018,810**	**46,404,083**	**5,354,900**	**51,758,983**
Profit / (loss) for the year		**-**	**-**	**-**	**-**	**-**	**538,805**	**538,805**	**(4,170)**	**534,635**
Other comprehensive loss		**-**	**-**	**-**	**-**	**(110)**	**-**	**(110)**	**-**	**(110)**
Total comprehensive income (loss)		**-**	**-**	**-**	**-**	**(110)**	**538,805**	**538,695**	**(4,170)**	**534,525**
Contribution by non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**763,005**	**763,005**
Transfer to statutory reserve	**13**	**-**	**-**	**53,881**	**-**	**-**	**(53,881)**	**-**	**-**	**-**
Balance at 31 December 2012		**33,390,000**	**27,241**	**4,868,717**	**2,155,826**	**(2,740)**	**6,503,734**	**46,942,778**	**6,113,735**	**53,056,513**
Balance at 1 January 2011		33,390,000	27,241	4,749,930	2,155,826	(2,491)	5,434,657	45,755,163	5,715,773	51,470,936
Profit / (loss) for the year		-	-	-	-	-	649,059	649,059	(422,133)	226,926
Other comprehensive loss		-	-	-	-	(139)	-	(139)	-	(139)
Total comprehensive income (loss)		-	-	-	-	(139)	649,059	648,920	(422,133)	226,787
Contribution by non-controlling interests		-	-	-	-	-	-	-	61,260	61,260
Transfer to statutory reserve	13	-	-	64,906	-	-	(64,906)	-	-	-
Balance at 31 December 2011		33,390,000	27,241	4,814,836	2,155,826	(2,630)	6,018,810	46,404,083	5,354,900	51,758,983

The attached notes 1 to 21 form part of these consolidated financial statements

1- CORPORATE INFORMATION

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, rental and sale of high quality, stable and secure real estate investment opportunities in the Kingdom of Bahrain and Gulf Co-operation Council countries («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. (closed) and the following subsidiary and associate companies as of 31 December 2012 (2011: same):

Company Name	Percentage shareholding	Country of incorporation	Year of incorporation	Industry
Subsidiary:				
Al Yal Real Estate Company W.L.L.	50%	Kingdom of Bahrain	2008	Real Estate

First Real Estate Company has the power to govern the financial and operating policies of Al Yal Real Estate Company W.L.L. and thus the later is deemed as a subsidiary of First Real Estate Company B.S.C. (closed).

Company Name	Percentage shareholding	Country of incorporation	Year of incorporation	Industry
Associates:				
Al-Sanbook R.E. Co (formerly Injazaat Business Management L.L.C.)	25%	United Arab Emirates	2006	Real Estate
Asdaf Real Estate Company L.L.C.	50%	United Arab Emirates	2009	Real Estate

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 10 April 2013.

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

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

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Changes in accounting policies and disclosure

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

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets effective for annual periods beginning on or after 1 January 2012.
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters effective for annual periods beginning on or after 1 July 2011.
- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements effective for annual periods beginning on or after 1 July 2011.

The adoption of the above standards had no impact on the Group›s financial position, performance or disclosures.

Furniture, equipment and vehicles

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

Such cost includes the cost of replacing part of the furniture, equipment and vehicles and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of furniture, equipment and vehicles are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the furniture, equipment and vehicles as a replacement cost if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furniture, equipment and vehicles

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

Furniture	7 years
Computers	4 years
Vehicles	7 years

The carrying values of furniture, equipment 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.

An item of furniture, equipment and vehicles and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of comprehensive income when the asset is derecognised.

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

Investment properties

Investment properties comprise completed properties and properties under construction or re-development held to earn rentals or for capital appreciation or both. Properties held under a lease are classified under investment properties when the definition of investment properties is met. The lease obligation is recognised under IAS 17 at fair value of the interest in the leasehold property.

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

Subsequent to initial recognition, an investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the statement of comprehensive income in the year in which they arise. For the purposes of these financial statements, in order to avoid ‹double accounting›, the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments,

- Increased by the carrying amount of any liability to the supplier leaseholder or freeholder that has been recognised in the statement of financial position as a finance lease obligations.

An investment property is derecognised when it has been disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties is recognised in the statement of comprehensive income in the year of retirement or disposal.

2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Transfers are made to or from investment properties only when there is a change in use evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Investments in associates

The Group›s investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the Group›s share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investments and is not amortised or separately tested for impairment. The statement of comprehensive income reflects the share of the results of the operations of the associates. Where there has been a change recognised directly in the equity of the associates, 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 associates are eliminated to the extent of the interest in the associates.

The share of profit of associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling 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 investments in associates. The Group determines at each

statement of financial position 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 statement of comprehensive income.

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 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.

2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group's financial assets include cash and bank balances, trade and other receivables and available for sale investments.

Available for sale investments

All investments are initially recognised at cost, being the fair value of the consideration paid 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 comprehensive income for the year.

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 consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Rent and other receivables are recognised at the lower of their original invoiced value or, where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents is comprised of cash and short term deposits as defined above net of outstanding bank overdrafts if any.

Impairment and uncollectibility of financial assets

The Group assesses at each consolidated statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

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.

2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and

c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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.

The Group's financial liabilities include trade and other payables and term loans.

Wakala finance and loans payable

Wakala finance are term borrowings obtained from commercial banks. After initial recognition, profit bearing loans and borrowings are subsequently measured at amortised cost using the effective profit rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Profit is charged to the statement of comprehensive income as it accrues. Accrued profit is included in accruals in trade and other payables.

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

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 statement of financial position 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.

2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Advance from tenants

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

Tenant deposits

Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost where material. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term.

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.

Employees› end of service benefits

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or an agent. The Group has concluded that

2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must be met before revenue is recognised:

Rental income

Rental income receivable from operating leases, less the Group›s initial direct costs of entering into leases, is recognised on a straight line basis over the lease term on ongoing leases.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

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

Profit income

Profit income is recognised as it accrues using the effective profit rate method.

Sale of completed properties

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Borrowing costs

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

Foreign currency translation

The consolidated financial statements are presented in Bahraini Dinars. Each entity in the Group determines its functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate ruling at the reporting date. All differences are taken to profit or loss.

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.

2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The assets and liabilities of foreign operations are translated into Bahraini Dinars at the rate of exchange prevailing at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3-SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

The key assumptions considering the future and other key sources of estimation uncertainty at the consolidated statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements other than estimates

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

Classification of property

The Group determines whether a property is classified as an investment property or a development property. Investment properties comprise land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.

Development properties comprise properties that are held for sale in the ordinary course of business. Principally this relates to residential property that the Group develops and intends to sell on or before completion of construction.

Estimates

Valuation of investment properties

The Group accounts for investment properties at fair values at the financial position 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 differences in the amounts actually realised in future periods and the carrying values will be recognised in the consolidated statement of comprehensive income.

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 cost or where objective evidence of

3-SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

impairment exists. Management have not noted any indicators that would suggest any impairment of investments.

Impairment of trade and other receivables
An estimate of the collectible amount of trade and other receivables 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.

At the consolidated statement of financial position date, gross trade receivables were BD 350,487 (2011: BD 388,555) and provision for doubtful debts was nil in 2012 (2011: nil).

4- STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 1 Government Loans – Amendments to IFRS 1 effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group;

- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 effective for annual periods beginning on or after 1 January 2013;

- IFRS 9 Financial Instruments: Classification and Measurement effective for annual periods beginning on or after 1 January 2015;
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements effective for annual periods beginning on or after 1 January 2013;

- IFRS 11 Joint Arrangements effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application;

- IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2013;
- IFRS 13 Fair Value Measurement effective for annual periods beginning on or after 1 January 2013;

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective;
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) effective for annual periods beginning on or after 1 January 2013;
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 effective for annual periods beginning on or after 1 January 2014;

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

4- STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

These improvements are effective for annual periods beginning on or after 1 January 2013.

5- FURNITURE, EQUIPMENT AND VEHICLES

2012	Furniture BD	Equipment BD	Vehicles BD	Total BD
Cost:				
At 1 January 2012	33,914	27,572	17,730	79,216
Additions	-	365	-	365
At 31 December 2012	33,914	27,937	17,730	79,581
Depreciation:				
At 1 January 2012	24,377	21,967	6,448	52,792
Provided during the year	4,877	4,110	2,798	11,785
At 31 December 2012	29,254	26,077	9,246	64,577
Net carrying amount:				
At 31 December 2012	**4,660**	**1,860**	**8,484**	**15,004**

2011	Furniture BD	Equipment BD	Vehicles BD	Total BD
Cost:				
At 1 January 2011	33,914	27,305	17,730	78,949
Additions	-	267	-	267
At 31 December 2011	33,914	27,572	17,730	79,216
Depreciation:				
At 1 January 2011	19,398	16,969	3,796	40,163
Provided during the year	4,979	4,998	2,652	12,629
At 31 December 2011	24,377	21,967	6,448	52,792
Net carrying amount:				
At 31 December 2011	9,537	5,605	11,282	26,424

6- INVESTMENT PROPERTIES

	2012 BD	2011 BD
Opening balance as at 1 January	**58,492,142**	59,519,911
Additions during the year	**2,037,225**	131,518
	60,529,367	59,651,429
Net loss in fair value adjustment	**(439,198)**	(1,159,287)
	60,090,169	58,492,142

Investment properties are stated at fair values, which have been determined by the directors based on the valuations performed by independent valuers. 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.

The additions during the year includes contribution by non controlling interest amounting to BD 692,001 (2011: 65,759).

Investment properties include one parcel of land under a long term lease arrangement. The lease has been fully paid and is for a minimum of 50 years.

Included in investment properties are certain plots of land with a carrying value of BD 20,613,902 as of 31 December 2012 which are mortgaged against the Group›s wakala finance facilities (note 15).

7- INVESTMENTS IN ASSOCIATES

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

	2012 BD	2011 BD
As at 1 January	**1,253,630**	1,257,430
Share of loss of associates	**(280,807)**	(3,661)
Foreign currency exchange (loss) gain	**(110)**	(139)
	972,713	1,253,630

7- INVESTMENTS IN ASSOCIATES (Continued)

The Group›s share of total assets, liabilities and results of operations of the associates as of 31 December on the basis of unaudited financial statements are as follows:

	Sanbook 2012 BD	Asdaf 2012 BD	Total 2012 BD
Ownership	25%	50%	
Current assets	5,465	8,000	13,465
Non current assets	1,026,400	-	1,026,400
Total assets	1,031,865	8,000	1,039,865
Current liabilities	66,477	675	67,152
Total liabilities	66,477	675	67,152
Net assets	965,388	7,325	972,713
Revenues	-	264	264
Expenses	(276,921)	(4,150)	(281,071)
Loss	(276,921)	(3,886)	(280,807)
Foreign currency exchange loss	(108)	(2)	(110)

	Sanbook 2011 BD	Asdaf 2011 BD	Total 2011 BD
Ownership	25%	50%	
Current assets	121,012	13,080	134,092
Non current assets	1,302,243	-	1,302,243
Total assets	1,423,255	13,080	1,436,335
Current liabilities	180,837	1,868	182,705
Total liabilities	180,837	1,868	182,705
Net assets	1,242,418	11,212	1,253,630
Revenues	207	2,197	2,404
Expenses	(3,487)	(2,578)	(6,065)
(Loss) profit	(3,280)	(381)	(3,661)
Foreign currency exchange gain	(136)	(3)	(139)

7- INVESTMENTS IN ASSOCIATES (Continued)

In 2008 the Group acquired a 25% interest in Al-Sanbook R.E. Co. («Sanbook»). Sanbook was incorporated in May 2006 and is involved in the acquisition, sale and lease of investment properties in the United Arab Emirates. The company had not yet commenced operations as at 31 December 2012.

Asdaf Real Estate Company LLC («Asdaf») was incorporated in August 2009. The Group acquired a 50% interest in the Company which is to be involved in the acquisition, sale and lease of investment properties. The Company is in the initial stages of set up and has not yet commenced operations.

8- AVAILABLE FOR SALE INVESTMENTS

	2012 **BD**	2011 BD
Available for sale investments - unquoted equity shares	**4,929,138**	4,932,154

The unquoted investments are carried at cost, as fair value cannot be reliably determined due to the unpredictable nature of future cash flows. The decrease in the balance during the year amounting to BD 3,016 (2011: BD 7,788) was due to 10% capital refund on investment in Madaen Al Luzi Co. Ltd.

9- TRADE AND OTHER RECEIVABLES

	2012 **BD**	2011 BD
Amounts due from related parties (note 18)	**609,648**	439,723
Advances to contractors (note 18)	**370,400**	-
Trade receivables	**350,487**	388,555
Amount due from non-controlling interests (note 18)	**111,616**	118,931
Amount due from an associate (note 18)	**66,886**	272,052
Prepaid expenses	**20,621**	6,631
Interest receivable - short term deposits	**7,758**	4,320
Security deposit	**1,995**	1,995
Other receivables	**1,506**	2,700
	1,540,917	1,234,907

Amounts due from related parties represents commissions and other expenses paid by the Group on behalf of the shareholders amounting to BD 609,648 (2011: BD 439,723). The balance is interest free and payable on demand.

Amounts due from non-controlling interests represent amounts due to the Group from the non-controlling shareholder. The amount is interest free and payable on demand.

Amount due from an associate represent excess investment made to the associate to be returned to the Group. The amount is interest free with no fixed terms of repayment.

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

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

	Total	Neither past due nor impaired	Past due but not impaired			
			30 – 60 days	60 – 90 days	90 – 120 days	>120 days
	BD	BD	BD	BD	BD	BD
2012	**350,487**	**178,954**	**79,689**	**91,844**	**-**	**-**
2011	388,555	56,678	331,877	-	-	-

10- CASH AND CASH EQUIVALENTS

	2012	2011
	BD	BD
Cash on hand	**295**	295
Cash at banks*	**1,585,839**	1,198,893
Wakala term deposits**	**1,018,472**	-
Murabaha term deposits**	-	3,876,762
	2,604,606	5,075,950
Wakala term deposit with an original maturity of more than three months	**(518,472)**	-
	2,086,134	5,075,950

*Cash at banks disclosed above exclude the effect of cash deposited in a Commerical Bank in the State of Kuwait, amounting to BD 7,811,559 held by the Group in a fiduciary capacity to a Subsidiary shareholder (2011: nil)

**Wakala and murabaha term deposits are short term deposits with commercial banks in the Kingdom of Bahrain. The deposits are denominated in Bahraini Dinars with an effective profit rate of 3.0% (2011: 2.3% to 2.8%) and a maturity of not more than three months.

11- SHARE CAPITAL

	2012	2011
	BD	BD
Authorised: 333,900,000 (2011: 333,900,000) ordinary shares of 100 Fils (2011: 100 Fils) each	**33,390,000**	33,390,000
Issued, subscribed and paid up	**33,390,000**	33,390,000

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- FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising on the translation of the Group›s investment in its foreign associates.

15- WAKALA FINANCE

	2012 BD	2011 BD
Wakala finance 1	**12,999,221**	12,999,221
Wakala finance 2	**2,500,000**	5,000,000
	15,499,221	17,999,221
Less: current portion	**(541,634)**	(15,499,221)
Non-current portion	**14,957,587**	2,500,000

Wakala finance 1

Based on the original terms of the loan, the principal was repayable in one lump sum payment on 1 November 2011. During the year, the Company renegotiated the terms of the loan with the bank. Based on the renegotiated terms, the finance arrangement is secured by a first legal mortgage over certain land included in the Group›s investment properties with a carrying value of BD 20,613,002. The loan carries a profit rate of Bibor plus 1.25% (2011: 1.25%) and 50% of the principal amount is repayable in 12 quarterly installments starting 1 November 2013 and the remaining 50% is repayable at final maturity date on 1 November 2018. Profit is payable on a quarterly basis and is expensed to the consolidated statement of comprehensive income as it accrues. Accrued profit of BD 36,109 (2011: BD 110,132) is included in trade and other payables as of 31 December 2012.

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 11,439,261. During the year, the Group settled the first instalment of BD 2,500,000 and the second installment amounting to BD 2,500,000 is repayable in 2015. The loan carries a profit rate of Bibor plus 1.25% (2011: 1.25%). Accrued profit of BD 19,792 (2011: BD 38,195) is included in trade and other payables.

Finance charges incurred on Wakala finances 1 and 2 have been included in the consolidated statement of comprehensive income as follows:

	2012 BD	2011 BD
Wakala finance 1	**660,794**	658,989
Wakala finance 2	**160,069**	253,472
Bank charges	**983**	582
	821,846	913,043

16- ADVANCES FROM TENANTS

	2012 BD	2011 BD
Long term advances *	**502,200**	725,400
Other advances	**211,452**	171,689
	713,652	897,089
Less: current portion	**(223,200)**	(394,889)
Non current portion	**490,452**	502,200

* In October 2009, the company entered into a 15 year lease agreement with a customer commencing in April 2010. The customer was required to pay an advance of BD 1,116,000 in two instalments which would be amortised over a 5 year period commencing in April 2010. The final instalment of BD 548,000 was received from the customer in 2010.

17- TRADE AND OTHER PAYABLES

	2012 BD	2011 BD
Payable to contractors (note 18)	**640,812**	-
Accrued expenses	**101,340**	19,278
Current account with property manager	**85,108**	157,423
Accrued finance costs	**55,901**	148,327
Amounts due to a related party (note 18)	**-**	34,504
Trade payables	**-**	382
	883,161	359,914

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

In 2011 Amounts due to related party represents amounts due to a shareholder of the Group. The amount was non interest bearing and payable on demand.

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 comprehensive income are as follows:

- A company related to a shareholder acts as the property manager for certain investment properties of the Group. During the year ended 31 December 2012, the Group incurred property expenses of BD 435,548 (2011: BD 510,697) with this property manager for running the day-to-day operations, renewal of contracts and securing new tenants in relation to these properties.

- A shareholder also acts as a property manager on an investment property for the Group. During the year ended 31 December 2012, the Group incurred property expenses of BD 256,749 (2011: BD 207,527) with this property manager for running the day-to-day operations, renewal of contracts and securing new tenants in relation to these properties.

Balances receivable from related parties included in the statement of financial position are as follows:

	2012 **BD**	2011 BD
Amounts due from related parties (note 9)	**609,648**	439,723
Advances to contractors (note 9)	**370,400**	-
Amounts due from non-controlling interests (note 9)	**111,616**	118,931
Amounts due from associates (note 9)	**66,886**	272,052
	1,158,550	830,706

There were no balances payable to related parties included in the statement of financial position (2011: BD 34,504).

Balance payable to contractors includes an amount of BD 636,612 due to a shareholder for the development of certain properties (2011: nil).

Outstanding receivable from related parties arise in the normal course of business and are interest free and unsecured. The Group only creates an allowance for impairment for related party balances where it is virtually certain the debt will not be recovered. For the year ended 31 December 2012, the Group has not recorded any impairment of amounts owed by related parties. (2011: nil).

Investment properties includes construction work in progress completed by a shareholder amounting to BD 1,940,505.

Compensation of keymanagement personnel

There was no remuneration paid to the directors and members of key management during the year (2011: nil

19- RISK MANAGEMENT

Introduction

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

Board of Directors

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

Market risk

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

Profit rate risk

The profit rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in the market profit rates. The Group is subject to profit rate risk on its floating profit bearing Wakala Finance. The sensitivity of the statement of income is the effect of the assumed changes in profit rates, with all other variables held constant, on the Group's profit for one year, based on the floating rate financial assets and liabilities held at 31 December 2012.

The following table demonstrates the sensitivity of the consolidated statement of comprehensive income to a reasonably possible change in profit rates, with all other variables held constant on the Group›s floating rate loans:

	Increase/ decrease in basis points	Effect on profit for the year BD
Finance costs		
2012		
	+10	**(15,499)**
	-10	**15,499**
2011		
	+10	(17,999)
	-10	17,999

Currency risk

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

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

Credit risk

The credit risk is the risk that a counter party will not meet its obligations under a financial instrument or a customer contract leading to a financial loss. The Group is exposed to credit risk on its trade and other receivables and cash and cash equivalents. The Group places its cash and cash equivalents with banks having a good credit rating. With regards to amount due from related parties, management believes that they do not represent a significant credit risk.

Credit risk (continued)

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

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in meeting its commitments. The Group limits its liquidity risk by ensuring bank facilities are available.

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

Year ended 31 December 2012	***Less than 3 months BD***	***3 to 12 months BD***	***1 to 5 years BD***	***More than 5 years BD***	***Total BD***
Wakala finance	**157,074**	**1,146,363**	**17,097,312**	**-**	**18,400,749**
Payable to contractors	**640,812**	**-**	**-**	**-**	**640,812**
Current account with property manager	**85,108**	**-**	**-**	**-**	**85,108**
Total	**882,994**	**1,146,363**	**17,097,312**	**-**	**19,126,669**

Year ended 31 December 2011	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 5 years BD*	*More than 5 years BD*	*Total BD*
Wakala finance	12,999,221	2,656,250	2,781,250	-	18,436,721
Trade payables	382	-	-	-	382
Current account with property manager	157,423	-	-	-	157,423
Amounts due to related parties	34,504	-	-	-	34,504
Total	13,191,530	2,656,250	2,781,250	-	18,629,030

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011. Capital comprises equity of the Group and is measured at BD 46,942,778 at 31 December 2012 (31 December 2011: BD 46,404,083).

20- FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of trade and other receivables, cash and cash equivalents and available for sale investments. Financial liabilities consist of trade and other payables and wakala finance.

Except for available for sale investments carried at cost, the fair value of financial instruments are not materially different from their carrying amounts.

As at 31 December 2012 and 31 December 2011, the Group did not hold any financial instrument remeasured at fair value, therefore, fair value hierarchy disclosures are not relevant.

21-CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for at the date of consolidated statement of financial position but not provided for, relating to the Group, amounted to BD 3,378,013 (2011: nil).