FIRST Real Estate Co. B.S.C.

Acquisition • Development • Management

ANNUAL REPORT 2013

FIRST

Real Estate Co. B.S.C.

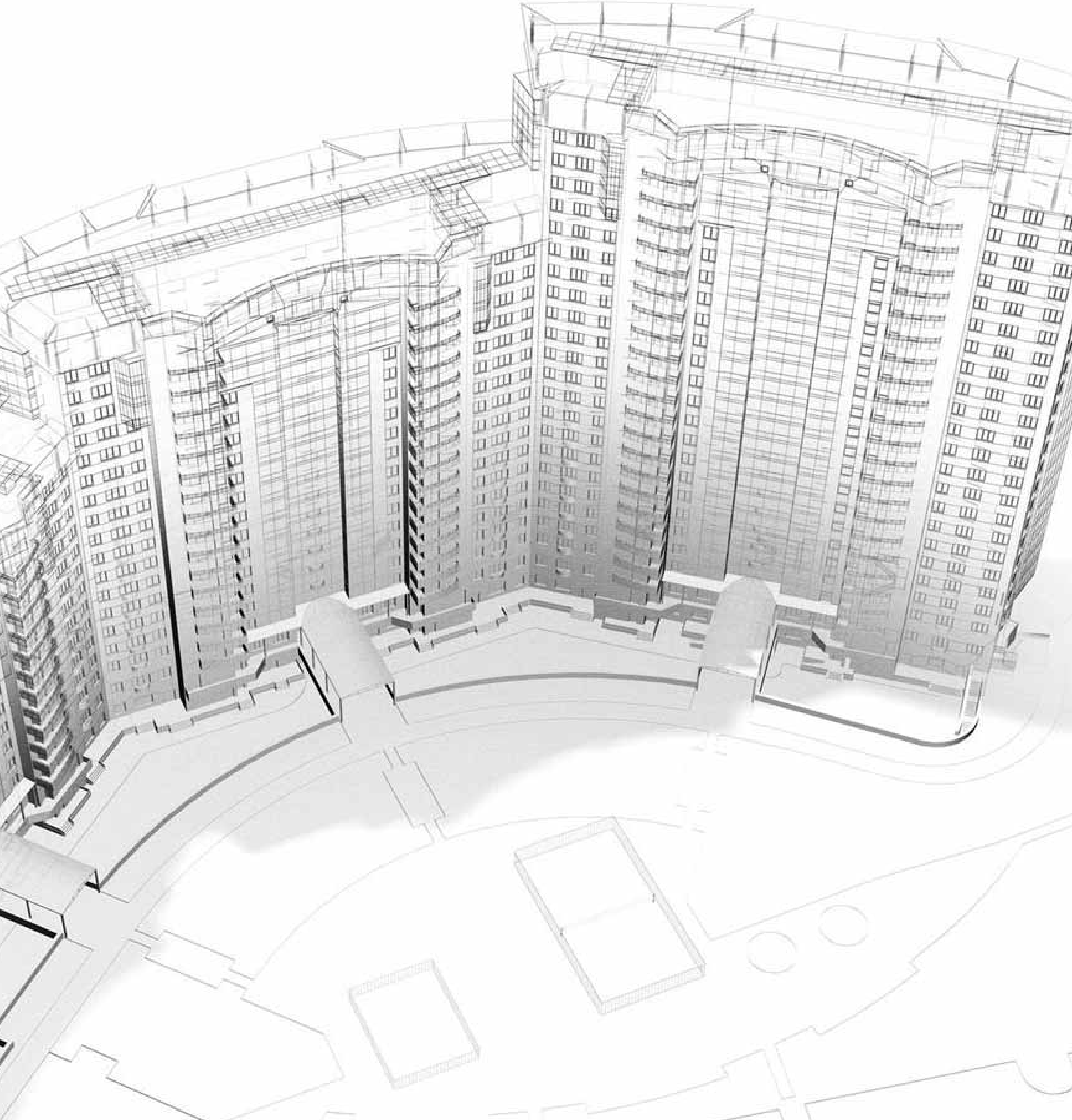
Acquisition • Development • Management

His Majesty
King Hamad Bin Isa Al Khalifa
King of Bahrain

His Highness
Shaikh Khalifa Bin Salman Al Khalifa
Prime Minister of Bahrain

His Highness
Shaikh Salman Bin Hamad Al Khalifa
Crown Prince - Commander-in-Chief
of 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

24'
3'
8'
2'-6"
5
11
11
LIVING ROOM
HFC UNIT
ICBO 1145
OR EQUAL
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Pantry
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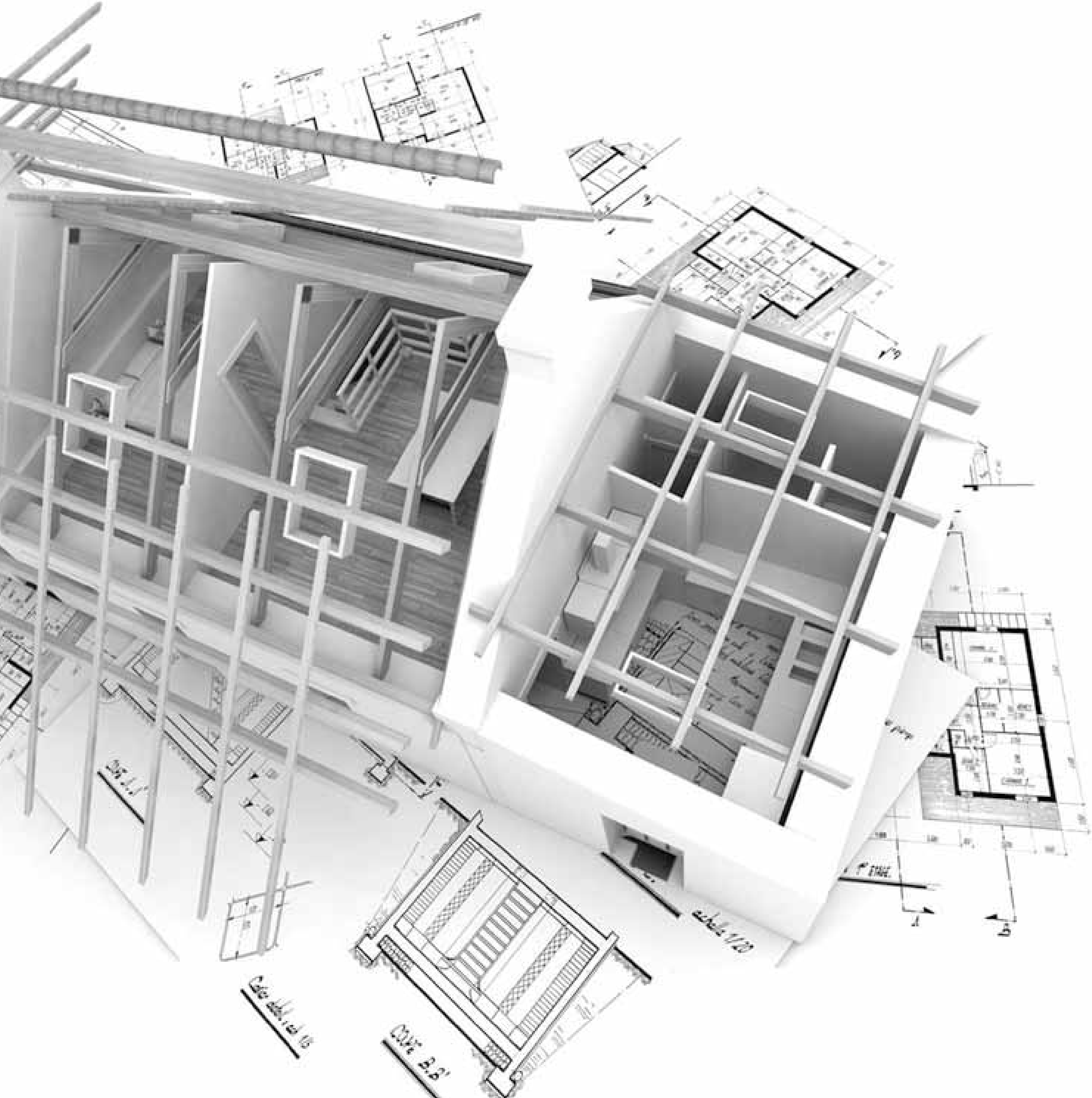


Dear First Real Estate Company Shareholders

On behalf of the board members, I am delighted to welcome you and present to you the annual report of First Real Estate Company. This report contains the outcome of the company's activities in the fiscal year ending December 31, 2013.

The company continued its efforts to sustain its successful record despite the disturbed local market conditions. It maintained the quality and performance of its income-generating assets which enjoy high occupancy rates. In line with the company's strategy, it continued developing its lands and assets in distinctive strategic locations, generating a sound future for those assets.

Due to First Real Estate Company's flexible strategy, its clear vision of its potentials, and its sound selection of available distinctive opportunities, the company managed to overcome obstacles through renting out all its projects at competitive rates. This had a very positive impact on bolstering the foundations of income-generating assets.

As for the company's accomplishments during the past year, the company completed the first warehouse at Al Hidd industrial area and will proceed with building the remaining two warehouses early in 2014. Al Seef residential building which comprises of 25 floors and contains 130 fully-furnished apartments is expected to be completed in the second quarter of 2014. The company is also preparing financial analysis and plans to develop two residential towers at Al Seef adjacent to the project that is currently under construction.

Due to local conditions in general and out of our keenness to convey the real picture of the company's assets values, the company was obliged to take additional provisions that directly impacted the company's profitability, but kept the shareholders' equity unaffected.
At the financial level, the company's assets totaled BD 68 million as at the end of 2013 (BD 70.4 million end of 2012), reflecting a slight drop by 3.46%. Shareholders' equity was BD 47.2 million (BD 46.9 million end of 2012), a slight increase by 5%. The company maintained the same level of revenues at BD 2.9 million in 2013 compared to BD 2.98 million in 2012, a slight drop by 2.5%. Expenditures increased to BD 2.6 million in 2013 (BD 2 million in 2012), a 30% increase due to some provisions taken on some assets. As a result, the profit for the parent company declined to BD 266,000 in 2013 (BD 588.8 thousand in 2012), a 50% decline.

The company promises and pledges to continue it's heritage of achievements during the forthcoming period. It will finalize the execution of projects that are already under construction, as well as monitor viable and appropriate opportunities that guarantee reinforcing income sources and asset values while awaiting positive developments in this vital sector both regionally and domestically.

Finally, allow me to extend, on behalf of my colleagues, board members, and the company personnel, our sincere gratitude and appreciation to our shareholders for their continued support and encouragement. Similarly, I would like to express our appreciation to the company's management and all its valued personnel for their dedication and loyalty to the company, which is the cornerstone for further achievements and accomplishments.

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

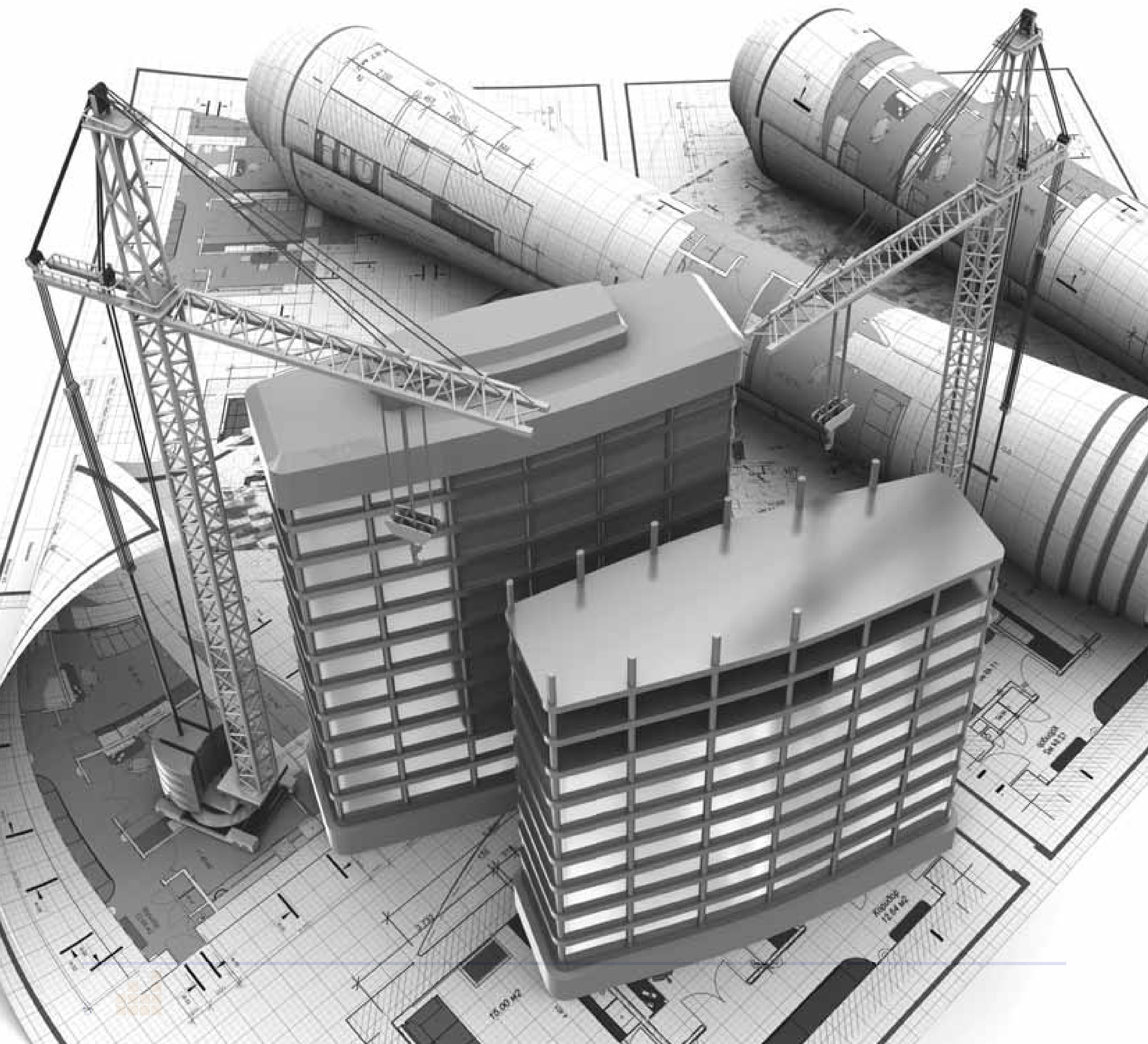
Vision

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

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 22,510 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 401 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 Yal Residence Tower - 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 sq. meters. The project comprises 130 fully furnished residential units plus a restaurant, gym, 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 the second quarter of 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 with a total built-up area of about 8,700 square meters and was completed in March 2013, and the warehouse is fully leased.

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 this land.

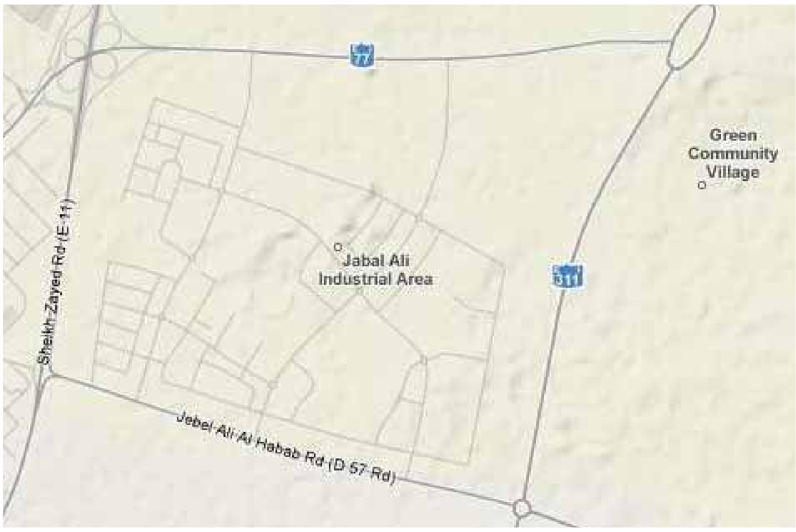
Marsa Al Seef - Al Seef Area

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 reclamation work of phase one of the project is complete. Marsa Al Seef Investment Company is exploring suitable exit scenarios.

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 company is exploring viable options to either sell or develop the land.



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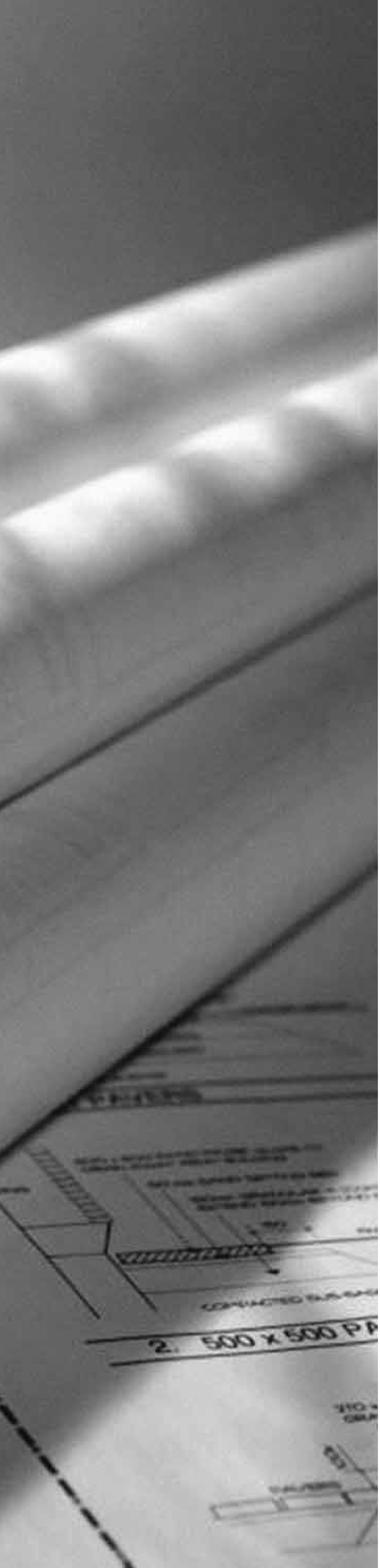
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Bahrain
Real Estate & Economic
Market Overview

Performance of the Local Bahraini Economy

The Kingdom of Bahrain's economy began to show some early signs of recovery after its decline due to the local repercussions of the Arab Spring. The Kingdom's real Gross Domestic Product (GDP) grew by about 4.8% in 2012, an acceptable growth rate for a developing country. It is also considered the third highest growth rate within the GCC after Qatar and Oman, and is higher than the 2011 growth rate of about 2.1%, the lowest since 1994. The growth rate for 2012, however, was lower than the average growth rate for the preceding ten years, which was about 5.7%. Growth rates are expected to drop slightly in 2013 and 2014 to about 4.4% and 3.3%, respectively. This is understandable in light of projections of a weak oil market and the failure to achieve permanent resolutions to domestic political conditions. It is worth noting that the economy did not contract real negative growth contrary to other Arab countries thatwitnessed political disturbances. Real economic growth figures, which are more important, seem better than the nominal growth figures of the economy.We, however, are obliged when we write about the real estate market to refer to nominal growth figures, i.e. without calculating the inflation impact, due to abundantdatain nominal terms in relation tosectors and activities.

The Kingdom's Government continues its expansionist fiscal policy that yields budget deficit. According to government estimates, the current era of budget deficits began in 2009 with a deficit of about-9.8% of GDP. This percentage, which is partly due to the negative impact of the global financial crisis, is relatively high, but it dropped slightly to about -9.4% in 2010, dropped again considerably to about -3% in 2011 and then reached about -4.4% in 2012. These are indicators of fluctuations in public finance. Public debt, i.e. accumulated budget deficits through the years, is still in the range of 40% of GDP, which is acceptable.

Price inflation remained under control with the peg between the Bahraini Dinar and the US Dollar, which meant neutralizing the exchange rate tool in the face of inflation reflectingthe openness of the Bahraini economy to the world, with its major impact on the movement of the prices of commodities and services in the world. Inflation in 2012 was estimated at 2.8%. It is expected to remain under control at 2% and 3% in 2013 and 2014 respectively, with attention paid to the performance of some global economies if recovery from the consequences of the global financial crisis continues, and the potential impact on increasing demand for raw materials and food, which might inflate their prices.

The Kingdom's current account continued to achieve surplus at about USD 2.2 billion in 2012, about 7.3% of GDP, which wasa positive indicator in line with the norm for the Bahraini economy. The surplus is expected to continue in 2013 and 2014 at about 6.3% and 4.1% of GDP respectively. These figurespoint to a relative stability in the Bahraini economy's relation with the global economy.

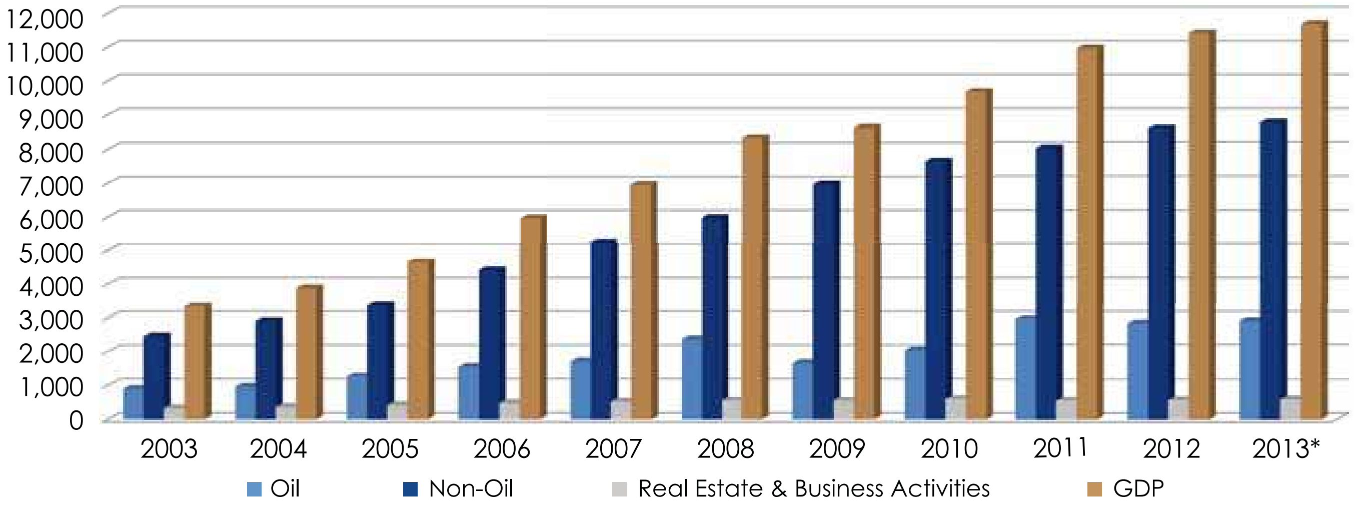
The above indicatorsshow that the repercussions of the global financial crisis and domestic political unrest have left their negative markon the performance of the Bahraini economy. Nevertheless, the economy performed better than expected. Although global and local challenges still exist, projections of specialized international institutions and bulletins imply that the economy's indicators could witness some improvement.

Performance of the Local Real Estate Market

Nominal Gross Domestic Product (GDP) grew by about 2.3% in 2013 toreach BD 11.674 billion, as per Central Bank of Bahrain (CBB) and the Economist Intelligence Unit (EIU) data compared to about BD 11.414 billion in 2012, reflecting a Compound Annual Growth Rate (CAGR) of about 13.3% during the years 2003-2013. The non-oil sector contributed about 75.2% to GDP in 2013 with a CAGRofabout 13.6% during the years 2003-2013. The oil sector contributed about 24.8% to GDP in 2013 with a CAGR of about 12.4%. The real estate activities and business services sector rose to about BD 602.1 million in 2013 (EIU estimates) compared to about BD 321.3 million in 2003 witha CAGR of about 6.5% during the years 2003-2013. Its contribution to GDP dropped to about 5.2% of GDP in 2013 as against 9.6% of nominal GDP in 2003.

Gross Domestic Production Performance changes for the years 2003-2013*

Distribution of the Gross Domestic Production 2013-2003*

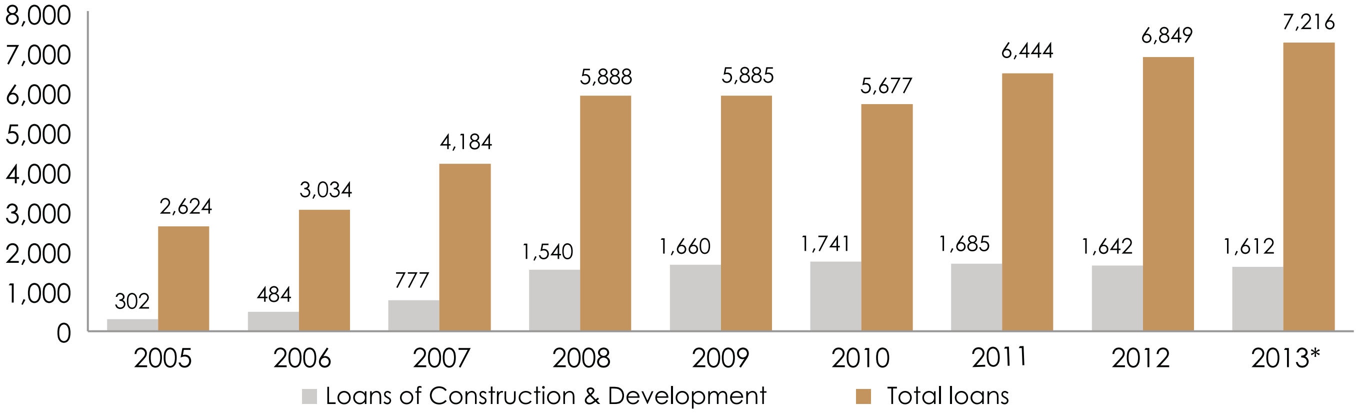


* 2013 Data from the EIU – December 2013.

Total credit since 2010 kept growing to about BD 7.216 billion in September 2013 (according to actual figures from CBB) compared toabout BD 6.849 billion in 2012, an annual growth of about 5.4% and a CAGR of about 8.3% during the years 2010-2013. Thevalue of building and construction credit during the same period declined to about BD 1.612 billion at the end of September 2013 (22.3% of total credit) compared to about BD 1.642 billion at the end of 2012 (24.0% of total credit), an annual decline of about -1.8%, with a CAGRof about 2.5% for the years 2010-2013.

Construction Credit versus Total Loans & Facilities[1]

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



*2013 data are based on actual figures until the end of September 2013 from CBB.

[1] Data are until September 2013: CBB (Banking Statistics).

The total number of building construction licenses issued during the first six months of 2013 was about 3.782 thousand or about 7.564 thousand licenses on an annual basis, a decline of about-1.1% from about 7.651 thousand licenses in 2012. During the 2008-2013 period the CAGR of building construction licenses declined by about -8.2%, as a result of the development of events both locally and globally.

Comparison of Total and Distribution of Building Construction Licenses[2]

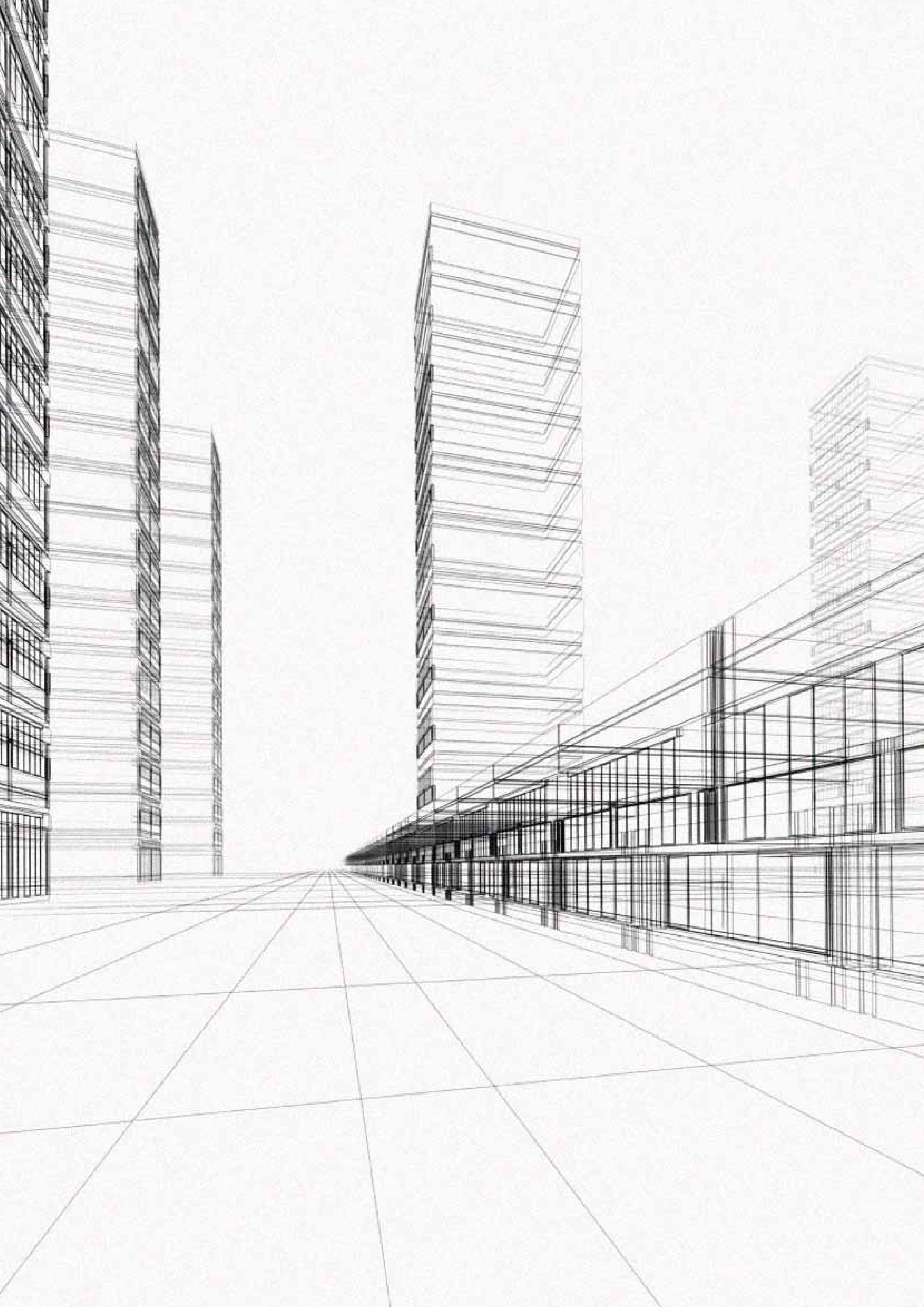
Construction Building Licenses	2008	% of the total	2009	% of the total	2010	% of the total	2011	% of the total	2012	% of the total	2013*	% of the total
Additions	5,204	44.9%	5,786	56.4%	5,429	54.2%	4,119	53.0%	3,987	52.1%	3,794	50.2%
Demolition	1,136	9.8%	652	6.4%	788	7.9%	605	7.8%	544	7.1%	538	7.1%
Demolition & Rebuilding	115	1.0%	65	0.6%	69	0.7%	57	0.7%	54	0.7%	58	0.8%
New Construction	3,847	33.2%	2,946	28.7%	2,788	27.8%	2,137	27.5%	2,183	28.5%	2,252	29.8%
Reclamation	35	0.3%	10	0.1%	14	0.1%	8	0.1%	6	0.1%	6	0.1%
Renovation	1,242	10.7%	1,019	9.9%	925	9.2%	844	10.9%	877	11.5%	916	12.1%
Total Construction Building Licenses	11,579	100%	10,253	100%	10,013	100%	7,770	100%	7,651	100%	7,564	100%

*2013 Data are based on actual figures until the end of June 2013 from the CBB's report (Economic Indicators) and estimates of total 2013.

The number of new building licenses issued during the first six months of 2013 was about 1.126 thousand or 2.252 thousand licenses onan annual basis (representing 29.8% of total building licenses),93.2% increase fromabout 2.183 thousand licenses in 2012 (representing 28.5% of total building licenses). The CAGR however,declined by about10.2% duringthe period 2008-2013. This comparison may need adjustments when actual figures for the entire year2013 are released.

Most of the drop in construction building licenses resulted from the unwillingness of Islamic banks to offer real estate loans after mid-September 2008, which was a natural outcome from the global financial crisis. In 2010, the Bahraini market began to recovery from the consequences of the global financial crisis. However, the political crisis that occurred in February 2011 adversely affected the real estate market leading to continued regression, though figures indicate some improvement in the early months of 2013.

[2] Data available until June 2013 calculated on annual basis: CBB (Economic Indicators).

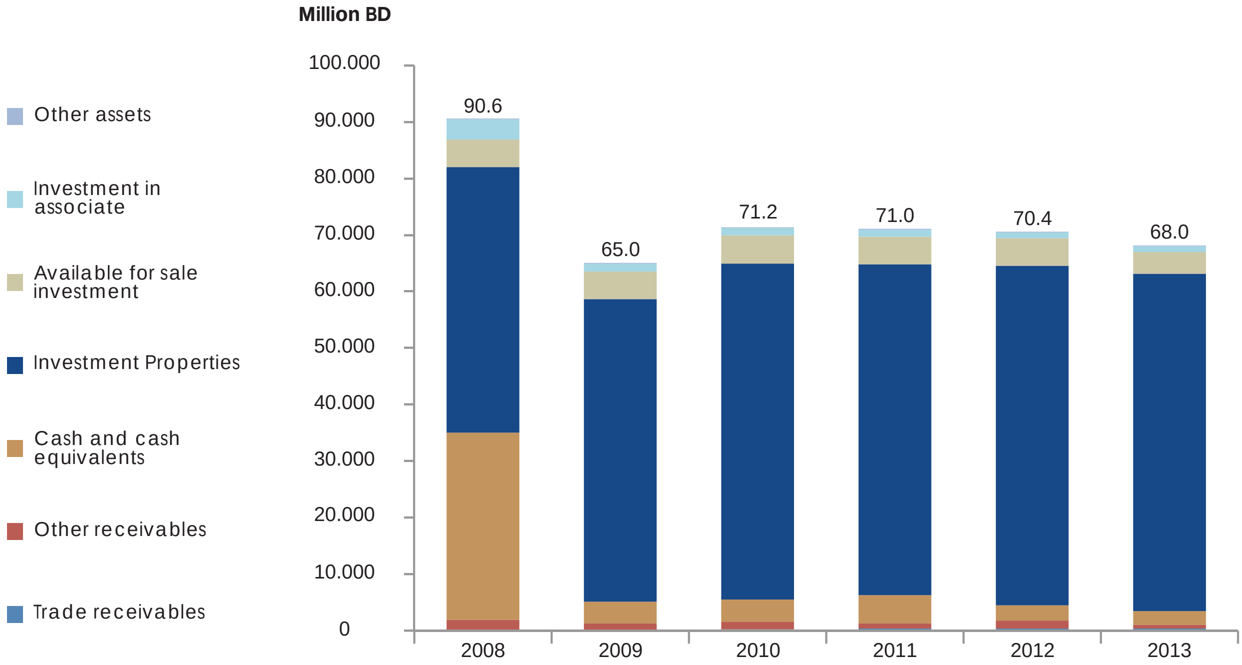


Financial Analysis of the Company

First: Financial Position

Total company assets during 2013 scored about BD 68 million (BD 70.4 million in 2012). The majority of these assets are either real estate investments or investments in real estate companies without significant changes in 2013. The value of available-for-sale investments declined by about BD 1 million to about BD 3.9 million (5.8% of total assets) compared about BD 4.9 million in 2012 (7.0% of total assets) as a result of about BD one million provision taken on one of the company's lands in AlSeaf area. Likewise, real estate investments declined by about BD 0.460 million to about BD 59.63 million (87.7% of total assets) compared with about BD 60.09 million in 2012 (85.3% of total assets) due to losses in the value of available-for-sale investments. Similarly, the cash and equivalent cash scored about BD 2.5 million, a slight drop by 4.3% (BD 2.6 million in the end of 2012).

Development of First Real Estate Company assets during the years (2008-2013)



Total assets of %	2008	2009	2010	2011	2012	2013
Rents receivables	0.1%	0.04%	0.4%	0.5%	0.5%	0.5%
Deposits and other receivables	1.9%	1.9%	1.8%	1.2%	2.1%	0.9%
Bank Deposits	36.6%	6.0%	5.5%	7.1%	3.7%	3.7%
Real Estate Investments	51.9%	82.3%	83.6%	82.4%	85.3%	87.7%
Available-for-sale Investments	5.5%	7.6%	6.9%	6.9%	7.0%	5.8%
Investments in associate firms	4.0%	2.1%	1.8%	1.8%	1.4%	1.4%
Other Assets	0.05%	0.06%	0.05%	0.04%	0.02%	0.01%
Total Assets	100%	100%	100%	100%	100%	100%

On the other hand, total liabilities declined to about BD 16.6 million (BD 17.4 million in 2012) after paying part of the funding granted by a bank. The company rescheduled its main financing granted by a local bank, where it shall pay 50% of it in 12 quarterly installments commencing from November 2013 and the remaining balance to be paid on maturity in November 2018.

Shareholders' equity rose by about BD 0.269 million to about BD 47.2 million (BD 46.9 million in 2012) due to an increase in retained profits by about BD 0.240 million to about BD 6.7 million (BD 6.5 million in 2012). As such, the book value of the company shares scored about 141.4 fils (140.6 fils in 2012).

Second: Financial Performance

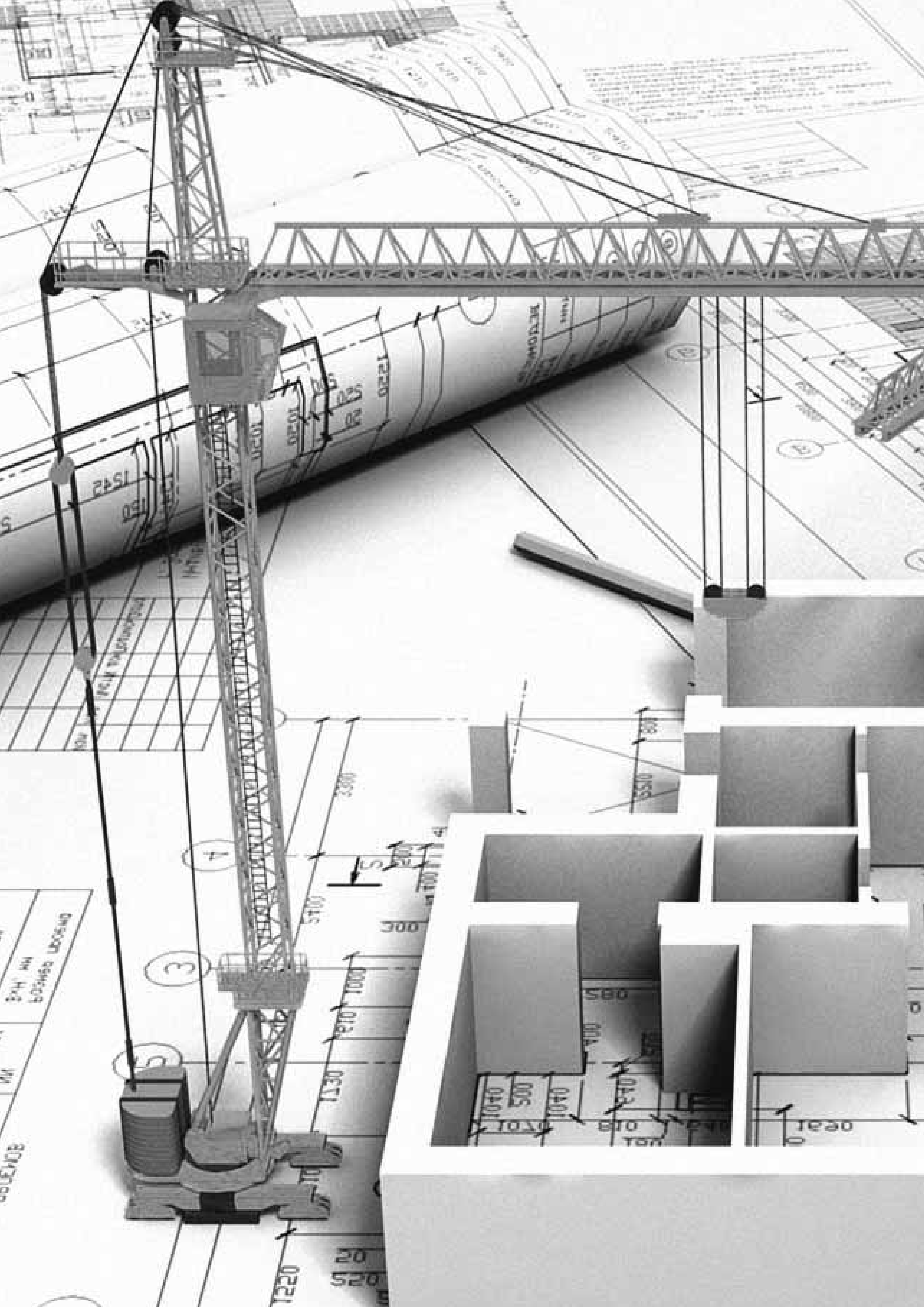
Company revenues dropped slightly by about 2.5% during 2013 and scored about BD 2.91 million (BD 2.98 million in 2012). Rental income scored about BD 2.86 million, 98.3% of total revenues, versus BD 2.92 million, 97.9% of total revenues, in the preceding year.

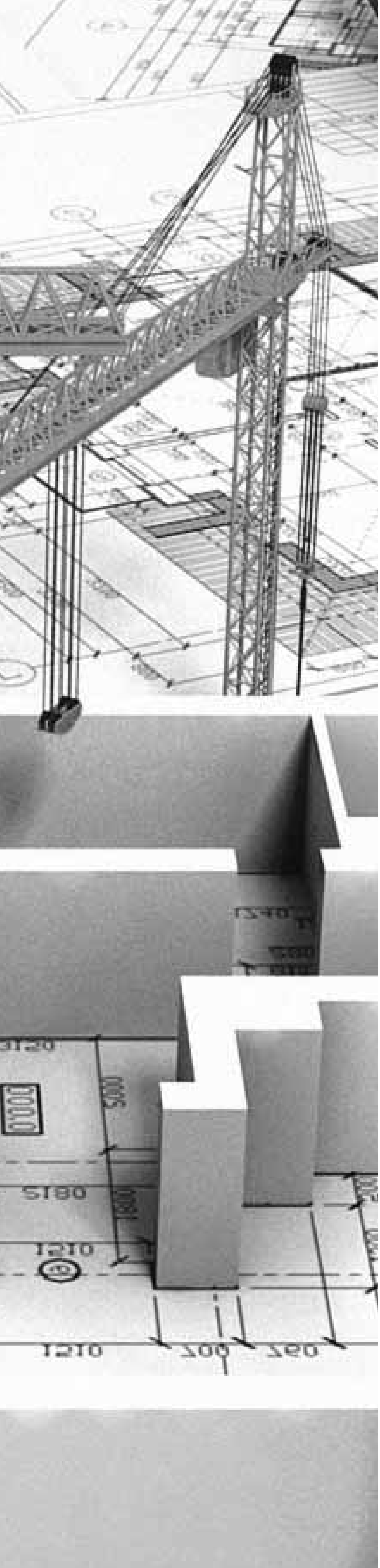
Expenses scored about BD 3.66 million in 2013, up by 49.3% compared to BD 2.45 million in 2012. This rise resulted from taking provision for loss from the drop in the value of available-for-sale investments and the change in the fair value of real estate investments by about BD 2.05 million (BD 0.439 million in 2012), while financing expenditures dropped and scored about BD 0.782 million due to paying part of the granted funding to the company during the year. Likewise, real estate expenses declined to about BD 0.635 million in 2013 (BD 0.697 million in 2012), which is within the same level of decline in rental income.

Because part of the provisions of BD 1 million did not relate to the company shareholders, the net profit due to the parent company shareholders scored about BD 0.267 million (BD 0.539 million in 2012). As a result, the earnings per share (EPS) for the company shareholders scored about 0.8 fil in 2013 (1.6 fils in 2012).

The following table shows summary of some financial indicators during the period (2008-2013).

Financial Indicators	2008	2009	2010	2011	2012	2013
Earnings Per Share-Fils	77.4	0.5	1.1	1.9	1.6	0.8
Book Value-Fils	210.4	135.9	137.0	139.0	140.6	141.4
Return on Equity (ROE)	43.8%	0.3%	0.8%	1.4%	1.2%	0.6%
Return on Assets (ROA)	32.8%	0.2%	0.3%	0.3%	0.8%	-1.1%
Return on Capital (ROC)	79.3%	0.5%	1.1%	1.9%	1.6%	0.8%





Financial Statements

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

Report of the Board of Directors and
Consolidated Financial Statements
31 December 2013

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 2013.

Principal activities and review of business developments

The Group is engaged in buying, selling, managing, developing and leasing of flats, offices and houses.

The Group incurred a net loss of BD 749,158 during the year ended 31 December 2013 (2012: net profit of BD 534,635) of which a profit of BD 266,612 is attributable to the equity holders of the parent (2012: BD 538,805) and a loss of BD 1,015,770 is attributable to the non-controlling interests (2012: BD 4,170).

Movement in retained earnings:

	2013 BD	2012 BD
Balance as of 1 January	**6,503,734**	6,018,810
(Loss) profit for the year	**(749,158)**	534,635
Non controlling interest	**1,015,770**	4,170
Transfer to statutory reserve	**-**	(53,881)
Balance as of 31 December	**6,770,346**	**6,503,734**

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 2014, will be submitted to the Annual General Meeting.

Signed on behalf of the Board

Chairman
March 3, 2014

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 2013 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 Directors' 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 determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2013, 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 2013 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Ernst + Young

Manama, Kingdom of Bahrain
March 3, 2014

Consolidated Statement of Financial Position
31 December 2013

	Notes	2013 BD	2012 BD
ASSETS			
Non-current assets			
Furniture, equipment and vehicles	5	8,127	15,004
Investment properties	6	59,630,955	60,090,169
Investments in associates	7	972,493	972,713
Available for sale investments	8	3,914,196	4,929,138
		64,525,771	66,007,024
Current assets			
Trade and other receivables	9	995,046	1,835,678
Cash and bank balances	10	2,493,653	2,604,606
		3,488,699	4,440,284
TOTAL ASSETS		68,014,470	70,447,308
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	4,868,717
General reserve	14	2,155,826	2,155,826
Foreign currency translation reserve		(283)	(2,740)
Retained earnings		6,770,346	6,503,734
Equity attributable to the equity holders of the parent		47,211,847	46,942,778
Non-controlling interests		4,220,147	6,113,735
Total equity		51,431,994	53,056,513
Non-current liabilities			
Wakala finance	15	12,791,017	14,957,587
Advances from tenants	16	55,800	279,000
		12,846,817	15,236,587
Current liabilities			
Wakala finance	15	2,166,537	541,634
Trade and other payables	17	1,078,004	1,177,922
Advances from tenants	16	491,118	434,652
		3,735,659	2,154,208
Total liabilities		16,582,476	17,390,795
TOTAL EQUITY AND LIABILITIES		68,014,470	70,447,308

Mohammad Ibrahim Al Farhan
Chairman

Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman

The attached notes 1 to 23 form part of these consolidated financial statements

Consolidated Statement of Comprehensive Income
Year Ended 31 December 2013

	Notes	2013 BD	2012 BD
INCOME			
Rental revenue		**2,860,176**	2,923,107
Wakala income		**15,393**	16,237
Murabaha income		**6,699**	37,523
Other income		**27,200**	7,628
		2,909,468	**2,984,495**
EXPENSES AND OTHER CHARGES			
Impairment loss on available for sale investment	8	**1,012,227**	-
Finance charges	15	**782,250**	821,846
Property expenses		**635,249**	696,871
Staff costs		**111,804**	138,758
Administrative expenses		**50,993**	47,323
Consultancy and professional fees		**13,841**	13,272
Depreciation	5	**7,497**	11,785
Share of loss on associates	7	**2,677**	280,807
		2,616,538	2,010,662
Fair value loss on investment properties	6	**1,042,088**	439,198
(LOSS) PROFIT FOR THE YEAR		**(749,158)**	534,635
OTHER COMPREHENSIVE INCOME			
Foreign currency translation gain (loss)		**2,457**	(110)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(746,701)**	534,525
Profit (loss) attributable to:			
Equity holders of the parent		**266,612**	538,805
Non-controlling interests		**(1,015,770)**	(4,170)
		(749,158)	534,635
Tottal comprehensive (loss) income attributable to:			
Equity holders of the parent		**269,069**	538,695
Non-controlling interests		**(1,015,770)**	(4,170)
		(746,701)	534,525

Mohammad Ibrahim Al Farhan
Chairman

Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman

The attached notes 1 to 23 form part of these consolidated financial statements

Consolidated Statement of Cash Flows
Year Ended 31 December 2013

	Notes	2013 BD	2012 BD
OPERATING ACTIVITIES			
(Loss) profit for the year		**(749,158)**	534,635
Adjustments for:			
Depreciation	5	**7,497**	11,785
Fair value loss on investment properties	6	**1,042,088**	439,198
Share of loss on associates	7	**2,677**	280,807
Impairment loss on available for sale investment	8	**1,012,227**	-
Finance costs	15	**782,250**	821,846
Murabaha and wakala income		**(22,092)**	(53,760)
Operating profit before working capital changes		**2,075,489**	2,034,511
Working capital changes:			
Trade and other receivables		**647,057**	(597,333)
Trade and other payables		**78,892**	269,622
Advances from tenants		**(166,734)**	(183,437)
Net cash from operating activities		**2,634,704**	1,523,363
INVESTING ACTIVITIES			
Purchase of furniture, equipment and vehicles	5	**(620)**	(365)
Murabaha and wakala income received		**29,850**	50,322
Additions to investment properties	6	**(1,446,989)**	(1,396,413)
Term deposit with maturity of more than three months	10	**518,472**	(518,472)
Refund of available for sale investments	8	**2,715**	3,016
Net cash used in investing activities		**(896,572)**	(1,861,912)
FINANCING ACTIVITIES			
Wakala finance paid		**(541,667)**	(2,500,000)
Finance costs paid		**(788,946)**	(914,272)
Additional contribution by non-controlling interest		**-**	763,005
Net cash used in financing activities		**(1,330,613)**	(2,651,267)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**407,519**	**(2,989,816)**
Cash and cash equivalents at 1 January		**2,086,134**	5,075,950
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	**2,493,653**	**2,086,134**

Non cash items:

1) Trade and other payables exclude the effect of unpaid wakala finance costs for the year amounting to BD 49,205 (2012: BD 55,901) with a net decrease of BD 6,696 (2012: BD 92,426) and the effect of unpaid payable to contractors as of year end amounting to BD 468,698 (2012: BD 640,812) with a net decrease of BD 172,114 (2012: increase of BD 640,812).

2) Trade and other receivables as of 31 December 2013 exclude the effect of accrued profit not yet received on short term deposits for the year amounting to nil (2012: BD 7,758) with a net decrease of BD 7,758 (2012: increase of BD 3,438) and the effect of receivables transferred to non-controlling interest amounting to BD 185,817 (2012: nil).

3) Additions to investment properties includes the effect of unpaid payable to contractors as of year end amounting to BD 468,698 (2012: BD 640,812) with a net decrease of BD 172,114 (2012: BD 640,812).

The attached notes 1 to 23 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

Year Ended 31 December 2013

Attributable to equity holders of the parent

	Notes	Share capital	Share premium	Statutory reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
		BD	BD	BD	BD	BD	BD	BD	BD	BD
Balance at 1 January 2013		**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**
Profit / (loss) for the year		-	-	-	-	-	266,612	266,612	(1,015,770)	(749,158)
Other comprehensive income		-	-	-	-	2,457	-	2,457	-	2,457
Total comprehensive income (loss)		-	-	-	-	2,457	266,612	269,069	(1,015,770)	(746,701)
Transfer to non-controlling interests*		-	-	-	-	-	-	-	(877,818)	(877,818)
Balance at 31 December 2013		33,390,000	27,241	4,868,717	2,155,826	(283)	6,770,346	47,211,847	4,220,147	51,431,994
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**

* Includes transfer of investment property of BD 692,001 (note 6) and receivable from non-controlling interests amounting to BD 185,817.

The attached notes 1 to 23 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements
31 December 2013

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 buying, selling, managing, developing and leasing of flats, offices and houses. 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 2013 (2012: 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 is exposed, or has rights, to variable returns from its involvement with Al Yal Real Estate Company W.L.L. and has the ability to affect those returns through its power over Al Yal Real Estate Company W.L.L. and thus the latter 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 March 3, 2014.

2- SIGNIFICANT ACCOUNTING POLICIES

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. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b) Exposure, or rights, to variable returns from its involvement with the investee; and
c) The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) The contractual arrangement with the other vote holders of the investee;
b) Rights arising from other contractual arrangements; and
c) The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- derecognises the 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 consolidated statement of income; and
- reclassifies the parent's share of components previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards and interpretations effective as of 1 January 2013

The accounting policies adopted by the Group are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1;
- IAS 1 Clarification of the requirement for comparative information (Amendment);
- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities;
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements;
- IFRS 12 Disclosure of Interests in Other Entities; and
- IFRS 13 Fair Value Measurement.

The nature and impact of these amendments have been described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's consolidated financial position or consolidated performance.

IAS 1 Clarification of the requirement for comparative information (Amendment);

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 required the management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The amendments have no impact on the Group's consolidated financial position or consolidated performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiary with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in notes 1 and 7.

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. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 20.

Several other amendments apply for the first time in 2013. However, they have no impact the consolidated financial statements of the Group.

Current versus non-current classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is presented as current when it is:

- expected to be realised or intended to sold or consumed in a normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is presented as current when:

- it is expected to be settled in a normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

Policy applicable from 1 January 2013
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a) In the principal market for the asset or liability; or
b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

a) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

Policy applicable before 1 January 2013
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.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (continued)

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.

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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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 impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of loss of an associate' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of comprehensive income.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables or available-for-sale investments, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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 assets include cash and bank balances, trade and other receivables and available for sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

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.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)
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 bank balances in the consolidated statement of financial position comprise of cash on hand, cash at banks and Murabaha and Wakala term deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances as defined above, net of Murabaha and Wakala term deposits with original maturity of more than three months, outstanding bank overdrafts and restricted bank accounts, 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;

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.

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and wakala finance.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

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.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

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.

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 time value of money is 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 a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

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.

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks. The following specific recognition criteria 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 the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements
31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

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.

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 for the year.

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.

Notes to the Consolidated Financial Statements
31 December 2013

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

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 impairment exists. At the consolidated statement of financial position date, the Group recorded an impairment of BD 1,012,227 (2012: nil) on their unquoted available-for-sale equity securities.

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 360,455 (2012: BD 350,487) and provision for doubtful debts was nil in 2013 (2012: 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 consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Notes to the Consolidated Financial Statements
31 December 2013

4- STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

IFRS 9 Financial Instruments

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. In subsequent phases, the IASB is addressing 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. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. 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. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in its consolidated financial statements.

Notes to the Consolidated Financial Statements

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5- FURNITURE, EQUIPMENT AND VEHICLES

2013	Furniture BD	Equipment BD	Vehicles BD	Total BD
Cost:				
At 1 January 2013	33,914	27,937	17,730	79,581
Additions	-	620	-	620
At 31 December 2013	33,914	28,557	17,730	80,201
Depreciation: At 1 January 2013	29,254	26,077	9,246	64,577
Provided during the year	2,692	2,145	2,660	7,497
At 31 December 2013	**31,946**	**28,222**	**11,906**	**72,074**
Net carrying amount: At 31 December 2013	**1,968**	**335**	**5,824**	**8,127**

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**

Notes to the Consolidated Financial Statements
31 December 2013

6- INVESTMENT PROPERTIES

	2013 BD	2012 BD
As at 1 January	**60,090,169**	58,492,142
Additions during the year	**1,274,875**	2,037,225
Transfer to non-controlling interests	**(692,001)**	-
	60,673,043	60,529,367
Fair value loss	**(1,042,088)**	(439,198)
As at 31 December	**59,630,955**	**60,090,169**

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 average selling price 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.

Transfer to non-controlling interest represent a transfer of a residential property by the subsidiary to Al Dhow Real Estate B.S.C. (c) at a carrying amount of BD 692,001 (2012: nil).

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 21,003,702 as of 31 December 2013 (2012: BD 20,613,904) 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:

	2013 BD	2012 BD
As at 1 January	**972,713**	1,253,630
Share of loss on associates	**(2,677)**	(280,807)
Foreign currency exchange gain (loss)	**2,457**	(110)
As at 31 December	**972,493**	**972,713**

Notes to the Consolidated Financial Statements
31 December 2013

7- INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	Sanbook 2013 BD	Asdaf 2013 BD	Total 2013 BD
Current assets	**20,254**	**13,412**	**33,666**
Non current assets	**4,116,000**	**-**	**4,116,000**
Current liabilities	**(269,369)**	**(1,867)**	**(271,236)**
Equity	**3,866,885**	**11,545**	**3,878,430**
Proportion of the Group's ownership	**25%**	**50%**	
Carrying amount of the investment	**966,721**	**5,772**	**972,493**
Revenue	**-**	**-**	**-**
Group's share of revenue for the year	**-**	**-**	**-**
Loss	**(4,438)**	**(3,133)**	**(7,571)**
Group's share of loss for the year	**(1,110)**	**(1,567)**	**(2,677)**
Foreign currency exchange gain	**2,443**	**14**	**2,457**

	Sanbook 2012 BD	Asdaf 2012 BD	Total 2012 BD
Current assets	21,860	16,000	37,860
Non current assets	4,105,600	-	4,105,600
Current liabilities	(265,906)	(1,350)	(267,256)
Equity	3,861,554	14,650	3,876,204
Proportion of the Group's ownership	25%	50%	
Carrying amount of the investment	965,388	7,325	972,713
Revenue	-	-	-
Group's share of revenue for the year	-	-	-
Loss	(1,107,682)	(7,772)	(1,115,454)
Group's share of loss for the year	(276,921)	(3,886)	(280,807)
Foreign currency exchange loss	**(108)**	**(2)**	**(110)**

FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)
Notes to the Consolidated Financial Statements
31 December 2013

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 2013.

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.

The associates had no contingent liabilities or capital commitments as at 31 December 2013 (31 December 2012: none).

8- AVAILABLE FOR SALE INVESTMENTS

The movement in the unquoted available-for-sale investments for the year is as follows:

	2013 BD	2012 BD
As at 1 January	**4,929,138**	4,932,154
Impairment loss for the year	**(1,012,227)**	-
Refund on investment	**(2,715)**	(3,016)
As at 31 December	**3,914,196**	**4,929,138**

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

9- TRADE AND OTHER RECEIVABLES

	2013 BD	2012 BD
Trade receivables	**360,455**	350,487
Amounts due from related parties (note 18)	**370,923**	904,409
Advances to contractors (note 18)	**169,500**	370,400
Amount due from an associate (note 18)	**66,886**	66,886
Prepaid expenses	**24,436**	20,621
Security deposit	**2,695**	1,995
Amount due from non-controlling interests (note 18)	**-**	111,616
Interest receivable - short term deposits	**-**	7,758
Other receivables	**151**	1,506
	995,046	**1,835,678**

Amounts due from related parties represents collections from tenants made by a shareholder on behalf of the Company and commissions and other expenses paid by the Group on behalf of the shareholders. The balance is interest free and payable on demand.

FIRST REAL ESTATE COMPANY B.S.C. (CLOSED)
Notes to the Consolidated Financial Statements
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9- TRADE AND OTHER RECEIVABLES (CONTINUED)

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:

			Past due but not impaired			
	Total BD	Neither past due nor impaired BD	30 – 60 days BD	60 – 90 days BD	90 – 120 days BD	>120 days BD
2013	**360,455**	**173,567**	**96,555**	**90,333**	**-**	**-**
2012	350,487	178,954	79,689	91,844	-	-

10- CASH AND BANK BALANCES

	2013 **BD**	**2012** **BD**
Cash on hand	**295**	295
Cash at banks*	**1,736,685**	1,585,839
Murabaha term deposits**	**756,673**	-
Wakala term deposit with an original maturity of less than three months**	**-**	500,000
Cash and cash equivalents	**2,493,653**	2,086,134
Wakala term deposit with an original maturity of more than three months	**-**	518,472
Cash and bank balances	**2,493,653**	**2,604,606**

*Cash at banks disclosed above exclude the effect of cash deposited in a commercial bank in the State of Kuwait amounting to BD 5,795,959 held by the Group in a fiduciary capacity to a subsidiary shareholder (2012: BD 7,811,559).

**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 1.25% (2012: 3.0%) and are made for varying periods of between one to six months.

Notes to the Consolidated Financial Statements
31 December 2013

11- SHARE CAPITAL

	2013 BD	2012 BD
Authorised: 333,900,000 (2012: 333,900,000) ordinary shares of 100 fils (2012: 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- GENERAL RESERVE

The general reserve, which represents funds set aside for the purpose of future capital expenditure and to enhance the capital base of the Group, is distributable.

15- WAKALA FINANCE

	2013 BD	2012 BD
Wakala finance 1	**12,457,554**	12,999,221
Wakala finance 2	**2,500,000**	2,500,000
	14,957,554	15,499,221
Less: current portion	**(2,166,537)**	(541,634)
Non-current portion	**12,791,017**	**14,957,587**

Notes to the Consolidated Financial Statements
31 December 2013

15- WAKALA FINANCE (CONTINUED)

Wakala finance 1

Based on the original terms of the loan, the principal was repayable in one lump sum payment on 1 November 2011. In 2012, 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 21,003,702 (2012: BD 20,613,902) (note 6). The loan carries a profit rate of Bibor plus 1.25% (2012: 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 29,413 (2012: BD 36,109) is included in trade and other payables as of 31 December 2013.

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 11,439,262 (2012: BD 11,439,262) (note 6). In 2012, the Group settled the first instalment of BD 2,500,000 and the second installment amounting to BD 2,500,000 is repayable in April 2015. The loan carries a profit rate of Bibor plus 1.25% (2012: 1.25%). Accrued profit of BD 19,792 (2012: BD 19,792) 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:

	2013 BD	2012 BD
Wakala finance 1	**654,897**	660,794
Wakala finance 2	**126,389**	160,069
Bank charges	**964**	983
	782,250	**821,846**

16- ADVANCES FROM TENANTS

	2013 BD	2012 BD
Long term advances *	**279,000**	502,200
Other advances	**267,918**	211,452
	546,918	713,652
Less: current portion	**(491,118)**	(434,652)
Non current portion	**55,800**	**279,000**

* 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.

Notes to the Consolidated Financial Statements
31 December 2013

17- TRADE AND OTHER PAYABLES

	2013 BD	2012 BD
Payable to contractors (note 18)	**468,698**	640,812
Amounts due to a related party (note 18)	**362,282**	294,761
Current account with property manager	**108,399**	85,108
Accrued expenses	**88,940**	101,340
Accrued finance costs	**49,205**	55,901
Trade payables	**480**	-
	1,078,004	**1,177,922**

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

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 2013, the Group incurred property expenses of BD 413,726 (2012: BD 435,548) 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 2013, the Group incurred property expenses of BD 208,216 (2012: BD 256,749) 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:

	2013 BD	2012 BD
Amounts due from related parties (note 9)	**370,923**	904,409
Advances to contractors (note 9)	**169,500**	370,400
Amounts due from associates (note 9)	**66,886**	66,886
Amounts due from non-controlling interests (note 9)	**-**	111,616
	607,309	**1,453,311**

The balance payable to a related party included in the statement of financial position amounted to BD 362,282 (2012: 294,761) [note 17].

Balance payable to contractors includes an amount of BD 468,698 due to a shareholder for the development of certain properties (2012: BD 636,612).

18- RELATED PARTY TRANSACTIONS (CONTINUED)

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 2013, the Group has not recorded any impairment of amounts owed by related parties (2012: nil).

Investment properties includes construction work in progress completed by a shareholder amounting to BD 2,423,421 (2012: BD 1,940,505).

Compensation of key management personnel

There was no remuneration paid to the directors and members of key management during the year (2012: 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 2013.

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:

19- RISK MANAGEMENT (CONTINUED)

	Increase / decrease in basis points	Effect on loss / profit for the year BD
Finance costs		
2013		
	+10	**14,957**
	-10	**(14,957)**
2012		
	+10	(15,499)
	-10	15,499

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

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

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19- RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The maximum exposure to credit risk at the reporting date is as follows:

	2013 BD	2012 BD
Cash and bank balances (excluding cash on hand)	**2,493,358**	2,604,311
Trade receivables	**360,455**	350,487
Amounts due from related parties (note 18)	**370,923**	904,409
Amount due from an associate (note 18)	**66,886**	66,886
Amount due from non-controlling interests (note 18)	**-**	111,616
Interest receivable - short term deposits	**-**	7,758
Other receivables	**151**	1,506
	3,291,773	**4,046,973**

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 2013	Less than 3 months BD	3 to 12 months BD	1 to 5 years BD	More than 5 years BD	Total BD
Wakala finance					
- principal	541,634	1,624,903	12,791,017	-	14,957,554
- profit	179,522	509,009	1,451,194	-	2,139,725
Payable to contractors	468,698	-	-	-	468,698
Amounts due to related parties	362,282	-	-	-	362,282
Current account with property manager	108,399	-	-	-	108,399
Trade payables	480	-	-	-	480
Total	**1,661,015**	**2,133,912**	**14,242,211**	**-**	**18,037,138**

Year ended 31 December 2012					
Wakala finance					
- principal	-	541,634	14,957,587	-	15,499,221
- profit	157,074	604,729	2,139,725	-	2,901,528
Payable to contractors	640,812	-	-	-	640,812
Amounts due to related parties	294,761	-	-	-	294,761
Current account with property manager	85,108	-	-	-	85,108
Total	**1,177,755**	**1,146,363**	**17,097,312**	**-**	**19,421,430**

19- RISK MANAGEMENT (CONTINUED)

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 2013 and 31 December 2012. Capital comprises equity of the Group and is measured at BD 47,211,847 at 31 December 2013 (31 December 2012: BD 46,942,778).

20- FAIR VALUES

Financial instruments

Financial instruments comprise of financial assets and financial liabilities.

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

The following methods and assumptions were used to estimate the fair values:

a) Available for sale investments are carried at costs. Cash and bank balances, certain portion of trade and other receivables and certain portion of trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments;

b) Loans and borrowings are evaluated by the Group based on parameters such as interest rates. As at 31 December 2013, the carrying amounts are not materially different from their fair values (2012: same).

As at 31 December 2013 and 31 December 2012, the Group did not hold any financial instrument remeasured at fair value, therefore, fair value hierarchy disclosures are not relevant.

Investment properties

The Group accounts for investment properties at fair values at the statement of 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 Group's investment properties measured at fair value under Level 3 fair value hierarchy amounted to BD 59,630,955 (2012: BD 60,090,169).

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current and prior years.

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21- FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The significant accounting policies in note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the consolidated statement of financial position by the class of financial instrument to which they are assigned, and therefore by the measurement basis:

	2013	2012
	BD	BD
Financial asset classified as loans and receivables		
Cash and bank balances (excluding cash on hand)	**2,493,358**	2,604,311
Trade receivables	**360,455**	350,487
Amounts due from related parties	**370,923**	904,409
Amount due from an associate	**66,886**	66,886
Amount due from non-controlling interests	**-**	111,616
Interest receivable - short term deposits	**-**	7,758
Other receivables	**151**	1,506
	3,291,773	**4,046,973**
Financial liability at amortised cost		
Wakala finance	**14,957,554**	15,499,221
Payable to contractors	**468,698**	640,812
Amounts due to a related party	**362,282**	294,761
Current account with property manager	**108,399**	85,108
Trade payables	**480**	-
	15,897,413	**16,519,902**

22- 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 905,677 (2012: 3,378,013).

23- COMPARATIVE FIGURES

Certain comparatives in the consolidated statement of financial position have been reclassified in order to conform with the current year presentation. Such reclassifications did not affect previously reported consolidated profit or equity.