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

Annual Report

2015

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Acquisition • Development • Management

Annual Report

2015

His Highness
HRH Prince Salman Bin Hamad Al Khalifa
Crown Prince - Deputy Supreme Commander
of Bahrain Defence Force

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

His Highness
HRH Prince Khalifa Bin Salman Al Khalifa
Prime Minister of Bahrain

Board Of Directors

Mohammed Ibrahim Al Farhan
CHAIRMAN

Abdulghaffar Abdrahim Al-Kooheji
VICE CHAIRMAN

Hamad Abdulaziz Al Shaya
BOARD MEMBER

Mohammad Ibrahim AL-Qassimi
BOARD MEMBER

Mohamed Abdul-Hameed
Al-Marzook
BOARD MEMBER

Gerard Snabian
BOARD MEMBER

Ahmad Saoud Al Sumait
BOARD MEMBER

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Chairman's Message

Dear First Real Estate Company Shareholders

Honorable shareholders of First Real Estate Company,

It gives the Board of Directors and myself great pleasure to welcome you and present to you the annual report of the results of First Real Estate Company for the fiscal year ending December 31st, 2015.

This year the company maintained a high stability in terms of income and occupancy rates, which contributed to increasing the standard of the assets and adding value to the accomplishments of preceding years. The company also continued its policy of developing income-generating assets with rewarding revenues while continuing the persistent work plan of creating innovative investment opportunities that increase the market value of such assets and distinguish them from their rivals.

First Real Estate Company adopts a clear strategy based on developing income-generating assets reinforced by obvious investment operations approach; this helped dislodge obstacles and consequently all company projects were rented out with competitive prices.

During this year, the Company managed to lease the recently developed assets most prominent of which is Al-Yal Residence Tower, with its remarkable sea view. This 130 fully furnished apartment's tower is a few meters away from the vital City Center Mall. Al- Yal Residential Tower is considered an important income generating asset. In addition, the company also managed to lease out its 26,082 square meters of warehousing space in its 626 project in record time and with competitive prices.

On the financial level, the company assets scored BD 78 million at the end of the year compared to BD 76.6 million in the end of 2014, BD 1.4 million increase approximately. Shareholders equities scored BD 50 million (BD 47.9 million in 2014), BD 2.1 million increase. Likewise, revenues increased and scored BD 4.7 million in 2015 (BD 3.2 million in 2014), BD 1.5 million increase.

On the other hand, expenses rose to BD 2.2 million (BD 1.7 million in 2014), an increase by BD 500,000 due to the commissioning of some projects. Therefore, profits of the mother company increased to BD 2.1 million (BD 729,000 in 2014), an increase by BD 1.4 million approximately.

During the past year, First Real Estate executed preliminary plans for its biggest project and in partnership with Al Dow Real Estate Company it managed to complete the final plans and obtain building permits to start the construction of the project which comprises of two towers; one assigned for sale and the second is for rent. The project is across the street from the City center Mall at Al Seef District.

This project is being executed on an area of 6,530 of square meters and contains more than 500 apartments and a commercial complex, in addition to gyms, swimming pools, movie theatres and other entertainment facilities. Completion of this project is expected to be within three years. The company also plans to continue to pursue favorable investment opportunities which help increase of the assets' value and reinforce income resources through completing ongoing projects.

Finally, I would like to extend, on behalf of my fellow members of the Board of Directors, our greatest gratitude and appreciation to the company shareholders for their continued support and esteemed trust.

Last but not least, I cannot but express our deepest thanks and appreciation to the efforts of the company employees and those who back the success of its projects for their industrious work and dedication to enable the company to achieve its goals and continue its leadership.

Kindest Regards,

Mohammad Ibrahim Al-Farhan
Chairman of the Board

Introduction

Introduction

First Real Estate Company was founded and restructured to achieve sustainable growth strategies and maintaining 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 markets.

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

Strategy

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

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

Vision

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

Mission Statement

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

Company's Projects

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 is 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 land area of 2,160 square meters and a total up area of 22,670 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 fullyeased.

(G28) Warehouse at the Bahrain Investment Wharf, Al Hidd Area

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.

(G26) Bahrain Investment Wharf Warehouses, Al Hidd Area

The company owns this strategically located land with an area of 58,222 square meters within Bahrain Investment Wharf project. In alignment with the company's strategy to maximise income generating assets, three warehouses were developed on this land boasting a total built up area of 26,000 square meters. Each warehouse, consists of units with different sizes, to accommodate the markets needs. The company completed the development on September 2014, and the project is fully leased.

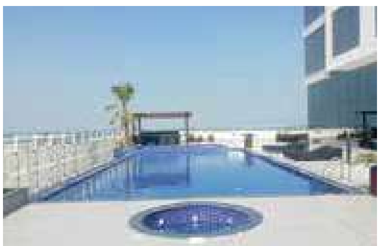
First Real Estate has sanctioned the development of an additional warehouse on this land with a total built up area of 3,864 square meters, and the completion date is expected to be in mid 2016.

Al Yal Residence Tower - Al Seef District

In equal partnership with a specialized real estate company, the Company had developed 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 built up area of 19,178 sq. meters. The project comprises 130 fully furnished residential units plus a restaurant, gym, children play area and a swimming pool. The tower overlooks the sea and 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 was completed in August 2014, and is fully leased.







United Arab of Emirates

Labour Accommodation at Muhaisnah Area – Dubai

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 399 rooms which were refurbished in 2010. The project is fully leased.

II. Land Trading and Development

Kingdom of Bahrain

Al Yal Residential project

First Real Estate along with an associate company, intends to start the development on the company's largest project. The project comprises of two residential towers along with a commercial space that lies between the towers. The project is to be built on a plot that measures 6,530 square meters, and the company intends to sell units in one tower, while furnishing the other and leasing it out on long term leases.

Al Seef Land - Al Seef District

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.

Hidd Industrial Land - Hidd Area

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 sell this land.

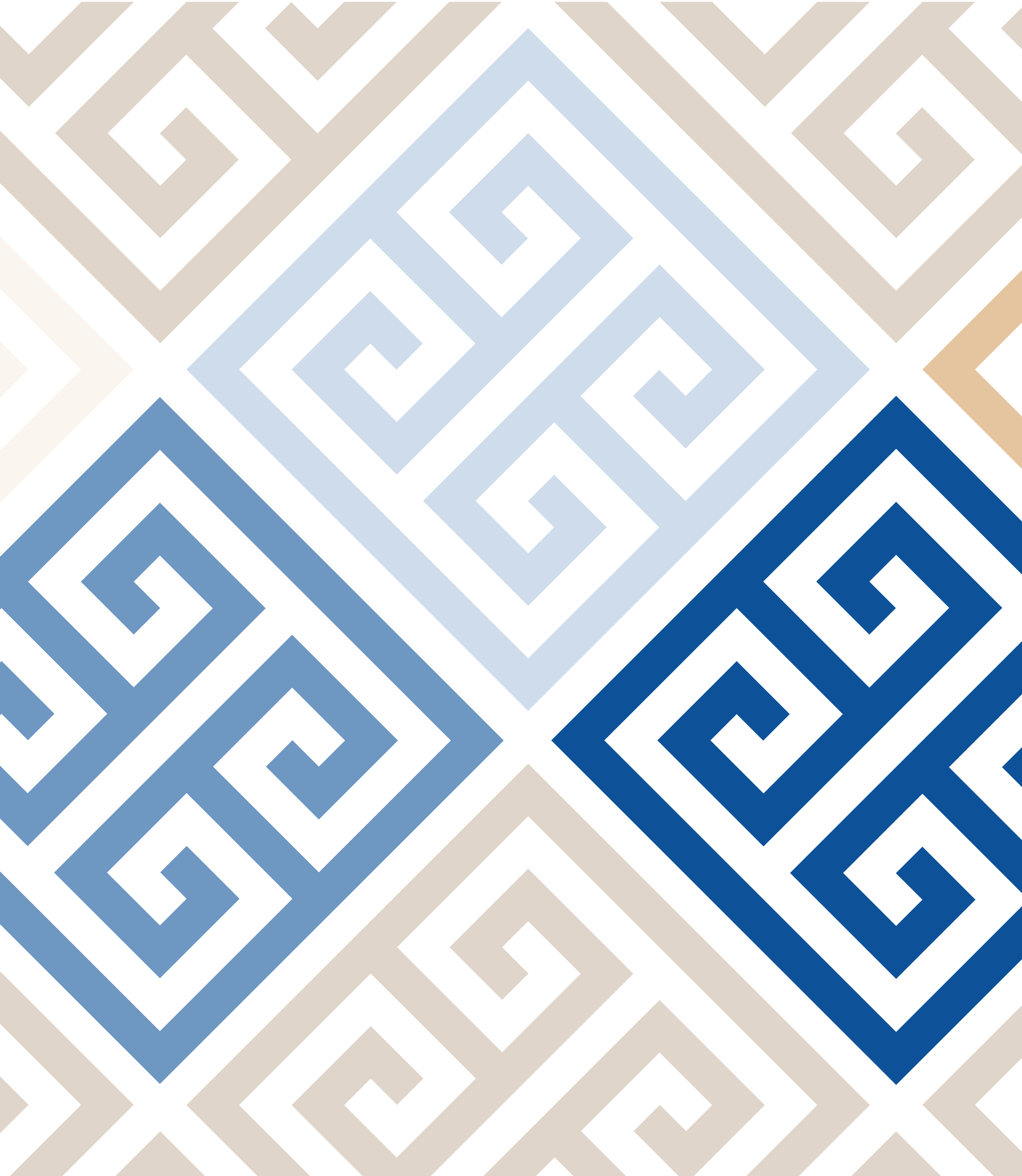
Marsa Al Seef - Al Seef Area

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 are 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. Development has commenced on a labour accommodation project that includes 380 units, it is expected to be completed in the second half of 2016.



Real Estate & Economic Market Overview

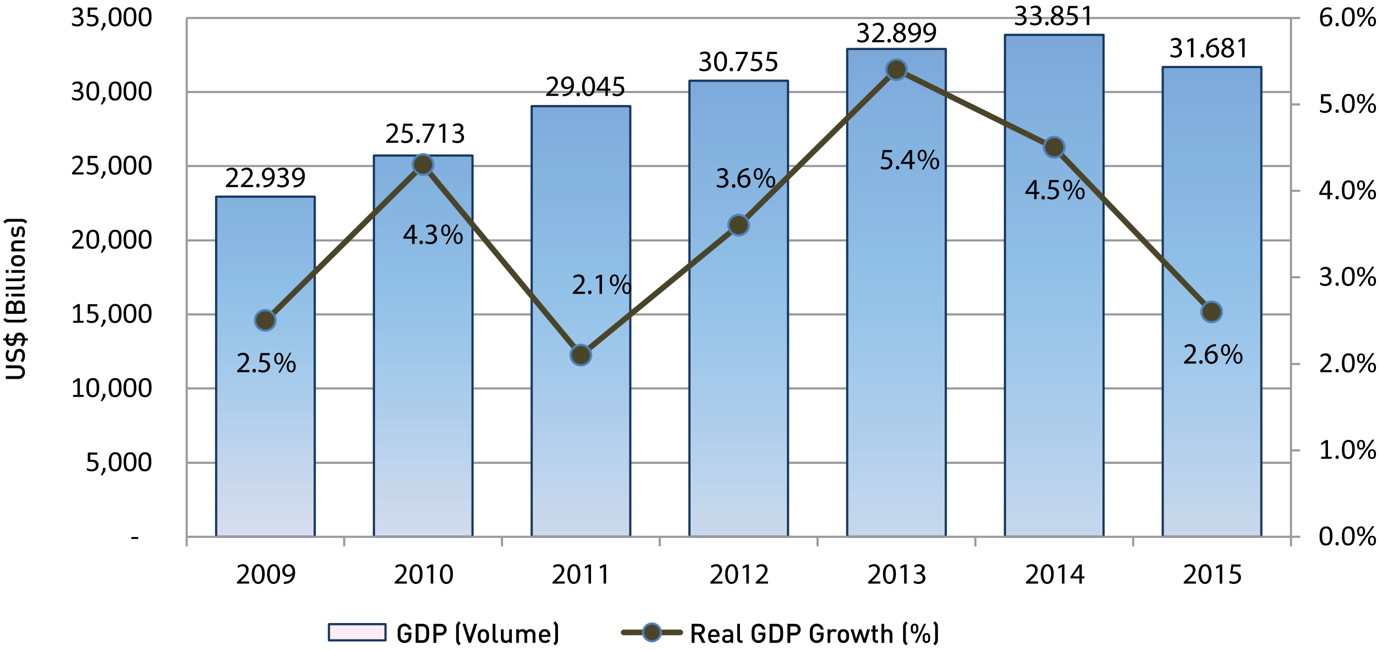
Performance of the Domestic Economy

According to the Economist Intelligence Unit (EIU), the Bahrain's economy is anticipated to continue with its growth projected although at a weaker pace. Subsequent to a soaring real growth in its GDP at around 3.6%, 5.4%, and 4.5% in 2012, 2013, and 2014 respectively, it seems Bahraini's economy shall be satisfied with growth rates of about 2.6% and 2.3% in 2015 and 2016, respectively.

Despite its oil production capped daily at about 200,000 barrels, Bahrain almost totally relies on it to fund (~80%) its budget. In addition to that, Bahrain's oil production proceeds are denominated in foreign currencies, thus it has been hit by the economic slowdown, which affected oil-based economies following the great contraction infected its market since autumn 2014.

Graph (1)

Bahrain's Gross Domestic Product and Real GDP Growth (2009-2015)



Source: Central Bank of Bahrain, EIU

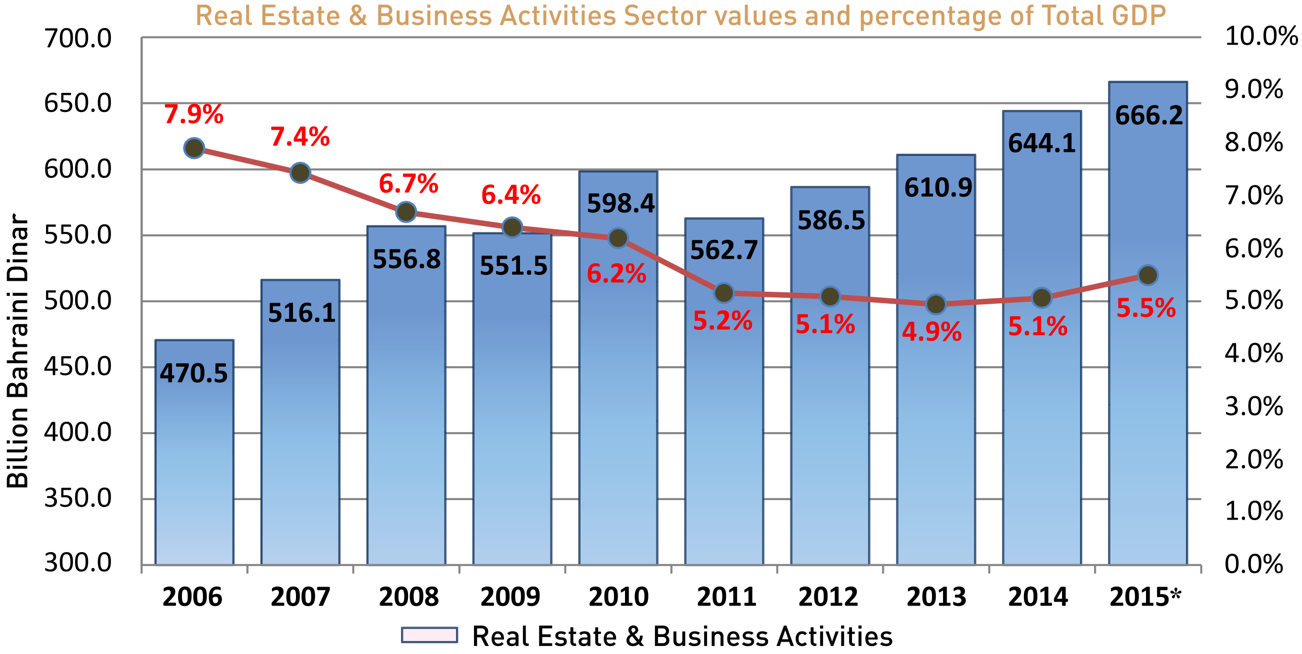
EIU report expects the deficit in the centralized budget to rise from 3.6% of GDP in 2014 to 13.9% in 2015 before it decreases again to 10.9% in 2016 then to 7.8% in 2017. The surplus of the current account – outcome of transactions with the foreign/international world - will continue at about US$ 1.124 billion in 2015 but will turn into deficit to reach about US$ 959 million in 2016, then improve slightly and, namely the deficit may shrink to US$ 890 million in 2017. EIU expects that inflation will remain under control between 3.2% - 3.5% during 2015-2017. furthermore, the Bahraini dinar's exchange rate against the US Dollar is expected to remain constant at 0.376 dinar for a dollar over the 3-years period. The volume of public debt is anticipated to settle at US$ 20 billion coupled with US$ 1.2 -1.4 billion in service cost over three years, an estimate assumed at interest rates increasing by not much over 1% during the same period.

Given the small size of Bahrain's sovereign fund estimated at US$ 11 billion according to Bahrain Properties Holding Company's data, and as Bahrain depends partially on GCC states Projects Development Fund, which suffer from the same problem, it may need a more stringent financial policy than others. However, the situation may become tangibly better if an agreement is reached among OPEC and non-OPEC members to limit the supplies of traditional oil similar to what happened in 1986 and in 1998.

Performance of the local Real Estate Market

After the weak performance of the real estate sector's activities and that of the business services up-to 2013, the sector began to grow at higher rates than those of the macro-economy. Its contribution into the Gross Domestic Product (GDP) began to increase gradually. In 2014, its contribution increased to 5.1% up from 4.9% in 2013, then increased to the level of 5.5% in 2015 following an increase in its absolute value by 3.4% to BD 666.2 million (BD 644.1 million in 2014). The sustained high and positive growth in the real estate sector's contribution over two years implies a recovery kickoff in Bahrain's real estate sector. However, the negative developments of the oil market and the hot geopolitical events in the region may hamper the continuation of the same pace at high positive growth. The real estate sector's growth was slower than that of the average macro-economic over the period 2006-2013, which reduced its GDP share from 7.9% in the beginning of the period to 4.9% in its end in 2013.

Graph (2)

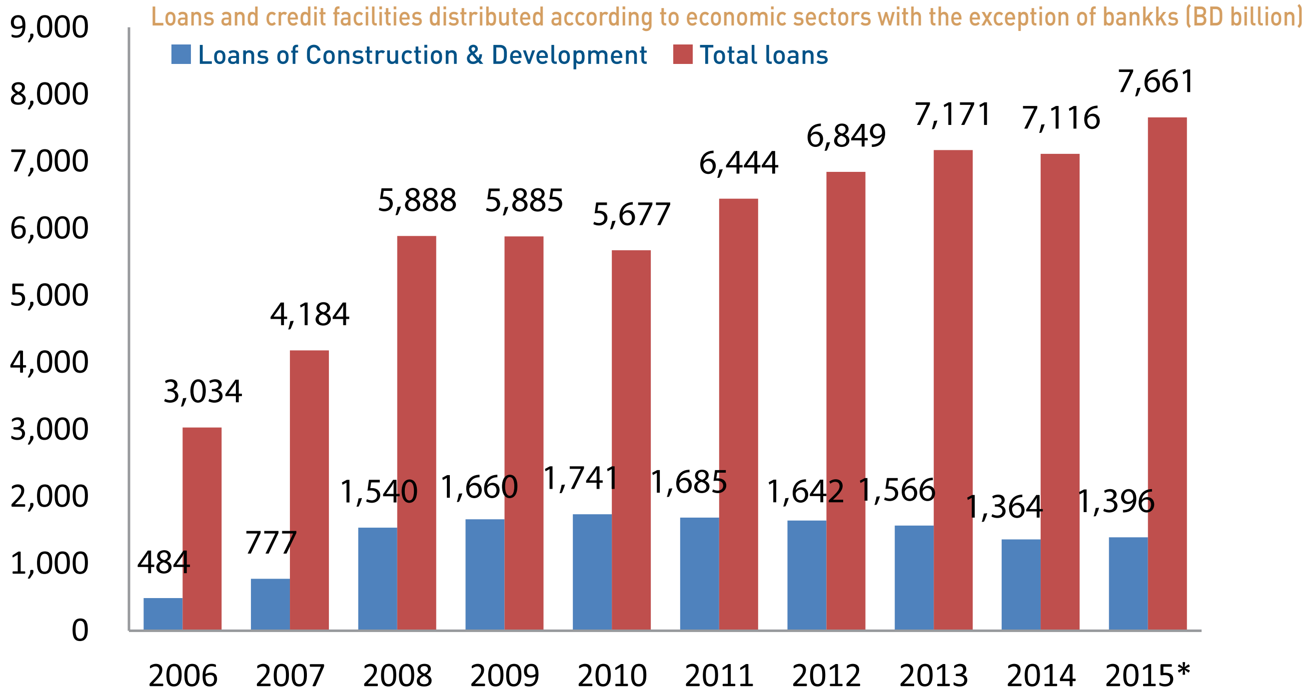


** 2015 data from the Central Bank of Bahrain report -June 2015 (calculated on an annual basis).*

Source: Central Bank of Bahrain

According to available data from the Central Bank of Bahrain, banking credits grew at a high rate, where its average growth rate scored 7.7% in a half year-from end of 2014 to end of June, 2015. Building and reconstruction activity share out of total banking credit scored about 18.2%. While the CAGR of the banking credit growth for the period 2006 to June 2015 scored about 11.5%, the CAGR of building and reconstruction activity scored 13.3% meaning that the sector does not suffer from financing scarcity.

Graph (3)



** 2015 data (modified) based on actual figures up to the end of June 2015.*

Source: Central Bank of Bahrain

According to data published by the Survey and Land Registration Bureau in the Kingdom of Bahrain, the real estate sector is still liquid measured by value of its trading amounting to BD 923.7 million in the first nine months of 2015 (BD 1,232 million on annual basis). If this amount of liquidity is realized in 2015, this means that liquidity of the Bahraini real estate market, and contrary to most GCC markets, lost only -4.7% compared with 2014 liquidity level. Nevertheless, it remains a negative turn due to the mentioned inconvenient events. It is worth mentioning that the real estate market liquidity in the Kingdom achieved a CAGR in 4 years - from 2011 to 2015 - by about 28.2%, reflecting a high market liquidity.

Table No. (1): Real Estate trading value

Total value of real estate transac-tions	2011	% Of the total	2012	% Of the total	2013	% Of the total	2014	% Of the total	2015	% Of the total
Bahrainis	362,966,608	79.7%	559,729,659	84.3%	757,744,690	87.9%	1,118,830,430	86.6%	1,105,816,912	89.8%
GCC Citizens	60,709,055	13.3%	48,642,104	7.3%	53,441,135	6.2%	108,107,612	8.4%	77,046,748	6.3%
Foreigners	31,699,795	7.0%	55,619,878	8.4%	50,777,329	5.9%	65,523,860	5.1%	48,731,679	4.0%
The total trading	455,375,458	100.0%	663,991,641	100.0%	861,963,154	100.0%	1,292,461,902	100.0%	1,231,595,339	100.0%

**Data until the third quarter of 2015 calculated on annual basis*

Source: Date from Survey and Land Registration Bureau -Kingdom of Bahrain

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

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015

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

Bahraini Dinars

The Board of Directors has the pleasure in submitting its report and the audited consolidated financial statements for the year ended 31 December 2015.

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 made a net profit of BD 2,430,749 during the year ended 31 December 2015 (2014: BD 1,023,317) of which a profit of BD 2,085,839 is attributable to the equity holders of the parent (2014: BD 729,028) and a profit of BD 344,910 is attributable to the non-controlling interests (2014: BD 294,289).

Financial highlights	2015	2014
Total income	4,683,480	3,187,537
Profit for the year	2,430,749	1,023,317
Total assets	77,952,263	76,615,549
Total equity	59,378,849	56,707,770

Representations and audit

The Group's activities for the year ended 31 December 2015 have been conducted in accordance with the Bahrain Commercial Companies Law 2001 and other relevant statutes of the Kingdom of Bahrain.

There have been no events subsequent to 31 December 2015, which would in any way invalidate the consolidated financial statements.

The Group has maintained proper, complete accounting records and these, together with all other information and explanations, have been made freely available to the auditors, KPMG Fakhro, who have expressed their willingness to continue as auditors for the next accounting year.

Signed on behalf of the Board

Mohammad Ibrahim Al-Farhan
Chairman
11 January 2016

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

Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Real Estate Company BSC (c) (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 management, 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 consolidated financial position of the Group as at 31 December 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 3 February 2015.

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 consolidated financial statements are in agreement therewith;
b) the financial information contained in the directors' report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro
Partner Registration No. 83
31 January 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December 2015 — Bahraini Dinars

	note	2015	2014
ASSETS			
Furniture, equipment and vehicles		3,505	5,031
Investment properties	5	67,381,625	67,302,550
Investments in associates	6	1,402,038	966,441
Available for sale investments	7	3,376,738	3,402,161
Non-current assets		**72,163,906**	71,676,183
Receivables and other assets	8	770,423	1,202,530
Cash and bank balances	9	5,017,934	3,736,836
Current assets		5,788,357	4,939,366
Total assets		**77,952,263**	76,615,549
EQUITY AND LIABILITIES			
Equity			
Share capital	10	33,390,000	33,390,000
Share premium	11	27,241	27,241
Reserves		16,603,274	14,521,273
Equity attributable to owners of the company		50,020,515	47,938,514
Non-controlling interests	22	9,358,334	8,769,256
Total equity		**59,378,849**	56,707,770
Liabilities			
Wakala finance	15	16,578,483	3,770,000
Non-current liabilities		16,578,483	3,770,000
Wakala finance	15	524,071	13,332,554
Payables and other liabilities	16	1,214,434	2,475,193
Advances from tenants		256,426	330,032
Current liabilities		**1,994,931**	16,137,779
Total liabilities		**18,573,414**	19,907,779
TOTAL EQUITY AND LIABILITIES		**77,952,263**	76,615,549

The Board of Directors approved the consolidated financial statements on 11 January 2016 and is signed on its behalf by:

Mohammad Al Farhan
Chairman

Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman

The notes on pages 24 to 42 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December 2015 — Bahraini Dinars

	Note	2015	2014
INCOME			
Rental revenue		4,679,828	3,177,035
Other income		3,652	10,502
Total income		**4,683,480**	3,187,537
EXPENSES AND OTHER CHARGES			
Property expenses		(1,084,286)	(729,226)
Finance costs	15	(868,823)	(703,598)
Impairment loss on available for sale investment	7	(2,816)	(512,035)
Other expenses		(124,283)	(138,691)
Staff costs		(129,743)	(128,732)
Consultancy and professional fees		(16,618)	(15,779)
Depreciation		(2,096)	(4,005)
Share of loss on associates	6	(24,066)	(3,691)
Profit from operations		**2,430,749**	951,780
Changes in fair value of investment properties	5	-	71,537
PROFIT FOR THE YEAR		**2,430,749**	1,023,317
OTHER COMPREHENSIVE INCOME			
Foreign currency translation loss		(3,838)	(2,361)
TOTAL COMPREHENSIVE INCOME		**2,426,911**	1,020,956
Profit attributable to:			
Owners of the Company		2,085,839	729,028
Non-controlling interests		344,910	294,289
		2,430,749	1,023,317
Total comprehensive income attributable to:			
Owners of the Company		2,082,001	726,667
Non-controlling interests		344,910	294,289
		2,426,911	1,020,956

The Board of Directors approved the consolidated financial statements on 11 January 2016 and is signed on its behalf by:

Mohammad Al Farhan
Chairman

Abdulghaffar Abdulrahim Al Kooheji
Vice Chairman

The notes on pages 24 to 42 are an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2015

Bahraini Dinars

	Attributable to equity holders of the parent										
			Reserves								
	Share capital	Share premium	Statutory reserve	General reserve	Foreign Currency Translation reserve	Retained earnings- Distributable	Retained earnings-not distributable	Total Reserves	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	33,390,000	27,241	4,968,281	2,155,826	(2,644)	7,339,109	60,701	14,521,273	47,938,514	8,769,256	56,707,770
Profit for the year	-	-	-	-	-	2,085,839	-	2,085,839	2,085,839	344,910	2,430,749
Other comprehensive income	-	-	-	-	(3,838)	-	-	(3,838)	(3,838)	-	(3,838)
Total comprehensive income	-	-	-	-	(3,838)	2,085,839	-	2,082,001	2,082,001	344,910	2,426,911
Contribution by non-controlling interest	-	-	-	-	-	-	-	-	-	244,168	244,168
Transfer to statutory reserve	-	-	208,584	-	-	(208,584)	-	-	-	-	-
Transfer by subsidiary	-	-	-	-	-	(69,071)	69,071	-	-	-	-
Balance at 31 December 2015	**33,390,000**	**27,241**	**5,176,865**	**2,155,826**	**(6,482)**	**9,147,293**	**129,772**	**16,603,274**	**50,020,515**	**9,358,334**	**59,378,849**

	Attributable to equity holders of the parent										
			Reserves								
	Share capital	Share premium	Statutory reserve	General reserve	Foreign Currency Translation reserve	Retained earnings-Distributable	Retained earnings-not distributable	Total Reserves	Total	Non-controlling interest	Total equity
Balance at 1 January 2014	33,390,000	27,241	4,895,378	2,155,826	(283)	6,743,608	77	13,794,606	47,211,847	4,345,147	51,556,994
Profit for the year	-	-	-	-	-	729,028	-	729,028	729,028	294,289	1,023,317
Other comprehensive loss	-	-	-	-	(2,361)	-	-	(2,361)	(2,361)	-	(2,361)
Total comprehensive income (loss)	-	-	-	-	(2,361)	729,018	-	726,667	726,667	294,289	1,020,956
Contribution by non-controlling interest*	-	-	-	-	-	-	-	-	-	4,129,820	4,129,820
Transfer to statutory reserve	-	-	72,903	-	-	(72,903)	-	-	-	-	-
Transfer by subsidiary	-	-	-	-	-	(60,624)	60,624	-	-	-	-
Balance at 31 December 2014	**33,390,000**	**27,241**	**4,968,281**	**2,155,826**	**(2,644)**	**7,339,109**	**60,701**	**14,521,273**	**47,938,514**	**8,769,256**	**56,707,770**

***Includes contribution in kind amounting to BD 4,112,467. The remaining balance of BD 17,353 pertains to cash contribution provided by non-controlling interest.**

The notes on pages 24 to 42 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2015 — Bahraini Dinars

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		2,430,749	1,023,317
Adjustments for:			
Depreciation		2,096	4,005
Changes in fair value of investment properties		-	(71,537)
Share of loss on associates		24,066	3,691
Impairment loss on available for sale investment		2,816	512,035
Finance costs		868,823	703,598
Murabaha and wakala income		(600)	(3,900)
Operating profit before working capital changes		3,327,950	2,171,209
Working capital changes:			
Receivables and other assets		139,074	(82,484)
Trade and other payables		40,451	309,282
Advances from tenants		(73,611)	(216,886)
Net cash generated from operating activities		**3,433,864**	2,181,121
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of furniture, equipment and vehicles		-	(909)
Murabaha and wakala income received		600	3,900
Payments to contractors		(1,315,247)	-
Additions to investment in associates		(463,500)	-
Additions to investment properties		(79,075)	(2,394,343)
Term deposit with maturity of more than three months		(750,000)	-
Redemption of available for sale investments		22,607	-
Net cash used in investing activities		**(2,584,615)**	(2,391,352)
CASH FLOWS FROM FINANCING ACTIVITIES			
Wakala finance (net)		-	2,145,000
Finance costs paid		(562,319)	(708,939)
Additional contribution by non-controlling interest		244,168	17,353
Net cash (used in) / generated from financing activities		**(318,151)**	1,453,414
Increase in cash and cash equivalents during the year		**531,098**	1,243,183
Cash and cash equivalents at 1 January		3,736,836	2,493,653
Cash and cash equivalents at 31 December	9	**4,267,934**	3,736,836

The notes on pages 24 to 42 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

1. REPORTING ENTITY

First Real Estate Company B.S.C. (c) ("the Company") was incorporated in the Kingdom of Bahrain on 10 September 2002 and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 49288. The Company is engaged in buying, selling, managing, developing and leasing of flats, offices and houses. The Company primarily operates in the Kingdom of Bahrain. The address of the Company's registered head office is Al Rossais Tower - Diplomatic Area, Office 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 subsidiaries and associate companies as at 31 December 2015 (2014: same)

Company Name	Percentage shareholding	Country of incorporation	Year of incorporation	Industry
Subsidiaries:				
Al Yal Real Estate Company W.L.L.	50%	Kingdom of Bahrain	2008	Real Estate
Al Yal Seef Residence W.L.L.	50%	Kingdom of Bahrain	2013	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 Al Yal Seef Residence W.L.L.; and has the ability to affect those returns through its power over Al Yal Real Estate Company W.L.L. and Al Yal Seef Residence W.L.L. and thus are deemed as subsidiaries of First Real Estate Company B.S.C. (c).

Company Name	Percentage shareholding	Country of incorporation	Year of incorporation	Industry
Associates:				
Al-Sanbook R.E. Co. 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 i.e. 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.

2. BASIS OF PREPERATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Bahrain Commercial Companies Law, 2001.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except of investment properties which are carried at fair value.

c) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The financial statements are presented in Bahraini Dinar, which is the Group's functional and presentation currency. Except where otherwise stated, all financial information presented has been rounded off to the nearest Dinar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

2. BASIS OF PREPERATION (CONTINUED)

d) New standards, amendments and interpretations effective from 1 January 2015

The following standards, amendments and interpretations, which became effective as of 1 January 2015, are relevant to the Group:

(i) Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

(ii) The annual improvements to IFRSs to 2010-2012 and 2011 - 2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The adoption of this amendment had no significant impact on the consolidated financial statements

e) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

(i) IFRS 9 - Financial Instruments

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is not expecting to have any material impact on the consolidated financial statements.

(ii) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(iii) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

2. BASIS OF PREPERATION (CONTINUED)

e) New standards, amendments and interpretations issued but not yet effective (continued)

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

The Group does not expect to have a significant impact on its consolidated financial statements.

(iv) Annual Improvements to IFRSs 2012–2014 Cycle – various standards.
The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The amendments are not expected to have any material impact on the consolidated financial statements of the Group.

(v) Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
Amendments made to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures clarify that:

- The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities.
- An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.
- Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement.

The amendments to IFRS 10 apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. Early adoption is permitted.

(vi) Disclosure Initiative (Amendments to IAS 1).
The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

2. BASIS OF PREPERATION (CONTINUED)

f) Early adoption of standards

The Group did not early adopt new or amended standards in 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

a) Basis of consolidation

i. Subsidiaries:
Subsidiaries' are entity controlled by the Group. The Group 'controls' an entity if it is exposed to, 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 entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

ii. Non-controlling interests
NCI are measured at their appropriate share of the acquiree's identifiable net assets at the date of the acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted as equity transactions.

iii. Associates:
An associate company is an enterprise in which the Company holds, directly or indirectly, more than 20% of the voting power or exercises significant influence, but not control, over the financial and operating policies. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

iv. Transactions eliminated on consolidation:
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs are incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete or suspended if the development of the asset is suspended.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

After initial recognition, investment property is carried at fair value. All fair value gains or losses are recognised in the profit or loss in the period in which they arise.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Financial instruments

(i) Classification

Financial assets

The Group classifies its financial assets into one of the following categories;

- Loans and receivables; and
- Available-for-sale.

Financial liabilities

The Group classifies financial liabilities into other financial liabilities category.

(ii) Recognition

The Group initially recognises receivables, deposits on the date on which they originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and financials liabilities are offset and the net amount presented in the statement of the financial position when, and only when, the Group has the legal right to offset the amounts and intends either to settle them on a net basis or to realise the assets and settle the liability simultaneously.

(iv) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group for which there are no other appropriate methods from which to derive fair value are carried at cost less impairment allowance.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Fair value measurement (continued)
These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in OCI and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(v) Amortised cost measurement
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

d) Receivables
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.

e) 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 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 term deposits with original maturity of more than three months, outstanding bank overdrafts and restricted bank accounts, if any.

f) 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.

g) Wakala finance
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 profit or loss when the liabilities are derecognised as well as through the amortisation process.

Profit is charged to the profit or loss as it accrues. Accrued profit is included in accruals in trade and other payables.

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

i) 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.

j) Provisions
A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Employees' end of service benefits

Pension rights (and other social benefits) for Bahraini employees are covered by the General Organisation for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under IAS 19 – Employee Benefits, is recognised as an expense in the profit or loss.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector 2012, based on length of service and final remuneration. Provision for this, which is unfunded and which represents a defined benefit plan under IAS 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the statement of financial position date. The charge for the year is recognised as an expense in the profit or loss.

l) 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 duties. 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 recognized.

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 profit or loss when they arise.

Interest income

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

m) Foreign currency translation

Transactions in foreign currencies are translated to Bahraini Dinars at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated into Bahraini Dinars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in foreign currency are translated using the exchange rate at the date of transaction.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The estimates and underlying assumptions are reviewed on an ongoing basis based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised, if the revision affects only that period or in the period of the revision and any future period, if the revision affects both current and future periods.

Estimates

An external, independent valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Company's investment property every year. The fair value of the investment property is based on determination of value in use of the cash generating unit principally using average of built-up and discounted cash flow projections by the external valuer based on estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current (at the reporting date) market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

5. INVESTMENT PROPERTIES

	2015	2014
As at 1st January	67,302,550	59,630,955
Additions during the year	79,075	3,487,591
Contribution by non-controlling interest	-	4,112,467
	67,381,625	67,231,013
Fair value changes	-	71,537
As at 31st December	**67,381,625**	67,302,550

Investment property comprises of lands and residential and commercial properties leased to third parties.

The fair value of Investment in residential and commercial properties were determined by an external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The fair value measurement has been categorized as Level 3 fair value based on the inputs to the valuation technique of discounted cash flows.

There have been no movements into or out of level 3 category

The valuation technique considers the present value of net cash flows to be generated from the property taking into account the expected rental growth rate, occupancy rate, and other costs not paid by the tenants. The expected net cash flows are discounted using risk adjusted discount rates and other factors the discount rate estimation considering the quality of the property and its location and lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

5. INVESTMENT PROPERTIES (CONTINUED)

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, occupancy rate, rent-free periods and other cost not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary) and lease terms.	• Expected market growth rate (2015 & 2014: 3-5%). • Occupancy rate (2015 & 2014: 60-100%, weighted average 89.2%). • Discount rates (2015 & 2014: 7-9%, weighted average 7.5%).	The estimated fair value would increase (decrease) if: • Expected market rental growth were higher (lower); • The occupancy rate were higher (lower); • The risk-adjusted discount rate were lower (higher).

The future rental rates were estimated depending on the actual location, type and quality of the properties, and taking into account market data and projections at the valuation date. Were the capitalisation rates on market rentals assumed in the valuation sensitivity analysis to increase/decrease by 1% from the valuer's assessment, the fair value of investment properties would be an estimated BD 5,886,648 (2014: BD 5,886,648) lower or BD 7,489,242 (2014: BD 7,489,242) higher, respectively.

Fair value of the lands were determined by the independent valuers using market comparables approach. The fair value measurement for the lands have been categorized as Level 2 fair value.

In 2014, contribution by non-controlling interest represent a contribution of a residential property by Injazzat Real Estate Development Company K.S.C. to Al Yal Seef Residence W.L.L., a subsidiary, at a carrying amount of BD 4,112,467.

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 and properties with a carrying value of BD 30,201,283 as at 31st December 2015 (2014: BD 26,389,643) which are mortgaged against the Group's wakala finance facilities (note 15).

6. 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 31st December and are as follows:

	2015	2014
As at 1st January	966,441	972,493
Additions during the year	463,500	-
Share of loss on associates	(24,065)	(3,691)
Foreign currency exchange loss	(3,838)	(2,361)
As at 31st December	**1,402,038**	966,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 Bahraini Dinars

6. 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	*Asdaf*	*31-Dec-15 Total*
Current assets	392,768	7,093	**399,861**
Non-current assets	5,705,364	-	**5,705,364**
Current liabilities	(500,072)	(2,047)	**(502,119)**
Non-current liabilities			
Net assets	5,598,060	5,046	**5,603,106**
Proportion of the Group's ownership	25%	50%	
Carrying amount of the investment	1,399,515	2,523	1,402,038
Loss	(90,644)	(2,808)	**(93,452)**
Group's share of profit / (loss) for the year	(22,661)	(1,404)	(24,065)
Foreign currency exchange loss	(3,387)	(1)	**(3,838)**

	Sanbook	*Asdaf*	*31-Dec-14 Total*
Current assets	17,127	11,059	28,186
Non-current assets	4,117,086	-	4,117,086
Current liabilities	(284,162)	(3,201)	(287,363)
Non-current liabilities			
Equity	3,850,051	7,858	3,857,909
Proportion of the Group's ownership	25%	50%	
Carrying amount of the investment	962,513	3,928	966,441
Loss	(7,443)	(3,659)	(11,102)
Group's share of profit / (loss) for the year	(1,861)	(1,830)	(3,691)
Foreign currency exchange loss	(2,348)	(13)	(2,361)

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 31st December 2015.

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 31st December 2015 (31st December 2014: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2015 — Bahraini Dinars

7. AVAILABLE FOR SALE INVESTMENTS

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

	2015	2014
As at 1st January	3,402,161	3,914,196
Impairment loss for the year	(2,816)	(512,035)
Redemption	(22,607)	-
As at 31st December	**3,376,738**	3,402,161

The investments are carried at cost less impairment, as these are not quoted and no other appropriate methods are readily available from which to derive a reliable fair value. The exit strategy is via a trade sale or initial public offering.

The impairment loss for the current period of BD 2,816 relates to the write-off for the fully redeemed investments.

8. RECEIVABLES AND OTHER ASSETS

	2015	2014
Tenants receivables	555,677	612,931
Amounts due from related parties (note 17)	47,238	494,589
Amount due from an associate (note 17)	66,886	66,886
Prepaid expenses	92,005	25,389
Security deposit	2,695	2,695
Amount due from non-controlling interests (note 17)	5,232	-
Other receivables	690	40
	770,423	1,202,530

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

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.

Tenant receivables are non-interest bearing and are normally settled on cash basis and 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 31st December, the ageing of unimpaired trade receivables is as follows:

			Past due but not impaired			
	Total BD	***Neither past due nor impaired***	***30 – 60 days BD***	***60 – 90 days BD***	***90 – 120 days BD***	***>120 days BD***
2015	**555,677**	**248,908**	**250,326**	**25,541**	**30,900**	**-**
2014	612,931	221,300	185,940	85,008	120,683	-

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9. CASH AND BANK BALANCES

	2015	2014
Cash and bank balances	4,017,934	3,736,836
Short-term bank deposits (maturing within 3 months)	250,000	-
Cash and cash equivalent in statement of cash flows	**4,267,934**	3,736,836
Cash and cash equivalent	4,267,934	3,736,836
Term deposits (maturity over 3 months)	750,000	-
Cash and bank balances in statement of financial position	**5,017,934**	3,736,836

Cash at banks disclosed above exclude the effect of cash deposited in a commercial bank in the State of Kuwait amounting to BD 11,876 held by the Group in a fiduciary capacity to a subsidiary shareholder (2014: BD 463,010).

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 0.92% (2014: 1.26%) and are made for varying periods of between one to six months.

10. SHARE CAPITAL

	2015	2014
Authorised:		
333,900,000 (2014: 333,900,000) ordinary shares of 100 fils (2014: 100 fils) each	33,390,000	33,390,000
Issued, subscribed and paid up	**33,390,000**	33,390,000

11. 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.

12. 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.

13. 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.

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14. RETAINED EARNINGS - NOT DISTRIBUTABLE

This represents the Group's share in the statutory reserves of its subsidiaries and is not available for distribution.

15. WAKALA FINANCE

	2015	2014
Wakala finance 1	13,332,554	10,832,554
Wakala finance 2	-	2,500,000
Wakala finance 3	3,770,000	3,770,000
	17,102,554	17,102,554
Less: current portion	(524,071)	(13,332,554)
Non-current portion	**16,578,483**	3,770,000

Wakala finance 1

Based on the original terms of the loan, the principal was repayable in one lump sum payment on 1 November 2011. In 2012, the Group renegotiated the terms of the loan with the bank. Based on the renegotiated terms, 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.

In November 2014, the parent entered in negotiations with the lender to reschedule the remaining balance of the loan. During this period the due instalments were postponed but the loan was classified as current. On 28 January 2015, the lender has approved the rescheduling. Based on the renegotiated terms, Wakala finance 1 and Wakala finance 2 were combined in one facility amounting to BD 13,332,554. 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 25,435,469 (2014: BD 25,435,469). The loan carries a profit rate of Bibor plus 2.5% and 50% of the principal amount is repayable in 16 equal quarterly instalments starting 31 January 2018 and the remaining 50% is repayable at final maturity date on 31 January 2022. Profit is payable on a quarterly basis and is expensed to the profit or loss as it accrues.

Wakala finance 2

The terms of this finance arrangement was renegotiated together with Wakala 1 above.

Wakala finance 3

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 4,765,809 (2014: 4,765,809) (note 6). The loan carries a profit rate of 5%. The principal amount is repayable in 60 equal monthly instalments starting from 15 January 2016 with final maturity date on 15 December 2020.

Finance charges incurred on Wakala finances have been included in profit or loss as follows:

	2015	2014
Wakala finance 1	677,391	574,127
Wakala finance 2	191,118	126,736
Other charges	314	2,735
	868,823	703,598

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16. PAYABLES AND OTHER LIABILITIES

	2015	2014
Payable to contractors (note 17)	377,109	1,561,946
Amounts due to a related party (note 17)	32,114	431,886
Current account with property manager	223,070	252,862
Accrued expenses	226,452	182,941
Accrued finance costs	350,368	43,864
Trade payables	5,321	1,694
	1,214,434	2,475,193

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

17. RELATED PARTY TRANSACTIONS

Related parties represent associate 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 profit or loss are as follows:

- A entity related to a shareholder acts as the property manager for certain investment properties of the Group. During the year ended 31 December 2015, the Group incurred property expenses of BD 783,597 (2014: BD 392,790) 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 2015, the Group incurred property expenses of BD 191,693 (2014: BD 203,574) 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 consolidated statement of financial position are as follows:

	2015	2014
Amounts due from related parties (note 8)	47,238	494,589
Amounts due from associates (note 8)	66,886	66,886
	114,124	561,475

The balance payable to a related party included in the consolidated statement of financial position amounted to BD 32,114 (2014: 431,886) (note 16).

Balance payable to contractors includes an amount of BD 377,109 due to a shareholder for the development of certain properties (2014: BD 1,561,946).

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 2015, the Group has not recorded any impairment of amounts owed by related parties (2014: nil).

Compensation of key management personnel

Remuneration of directors and members of key management during the year amounted to BD 70,000 (2014: BD 70,000).

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18. 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 interest 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.

Interest rate risk

The interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in the market interest rates. The Group is subject to interest rate risk on its floating profit bearing Wakala Finance. The sensitivity is the effect of the assumed changes in interest 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 2015.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's floating rate loans:

	Increase / decrease in basis points	*Effect on profit / loss for the year BD*
Finance costs		
2015	**+10**	**15,522**
	-10	**(15,522)**
2014		
	+10	13,333
	-10	(13,333)

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

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations.

The Group is exposed to credit risk on its tenant 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. 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.

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18. RISK MANAGEMENT (CONTINUED)

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

The carrying amount of financial assets represent the maximum credit exposure.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. 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 31st December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Wakala finance	394,924	1,181,069	10,964,769	8,815,911	**21,356,673**
Payable to contractors	377,109	-	-	-	**377,109**
Amounts due to related parties	32,114	-	-	-	**32,114**
Current account with property manager	223,070	-	-	-	**223,070**
Trade payables	5,321	-	-	-	**5,321**
Total	**1,032,538**	**1,181,069**	**10,964,769**	**8,815,911**	**21,994,287**

Year ended 31st December 2014	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***More than 5 years***	***Total***
Wakala finance	10,985,898	2,834,870	4,556,009	898,257	19,275,034
Payable to contractors	1,561,946	-	-	-	1,561,946
Amounts due to related parties	431,886	-	-	-	431,886
Current account with property manager	252,862	-	-	-	252,862
Trade payables	1,694	-	-	-	1,694
Total	13,234,286	2,834,870	4,556,009	898,257	21,523,422

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 2015 and 31 December 2014. Capital comprises equity of the Group and is measured at BD 50,020,515 at 31 December 2015 (31 December 2014: BD 47,938,514).

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19. FAIR VALUES

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 in the principal or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance of risk.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measures:

- ***Level 1:*** Quoted market price (unadjusted) in an active market for an identical instrument.
- ***Level 2:*** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- ***Level 3:*** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values of financial assets and financial liabilities carried at amortised cost approximate the carrying values as at the reporting date.

20 FINANCIAL INSTRUMENTS BY CATEGORY

The classification of financial assets and liabilities by accounting categorization is as follows:

2015	**Loans and receivables**	**Avail-able-for- sale**	**Other finan-cial liabilities**	**Total carrying amount**
Available-for-sale investments	-	3,376,738	-	3,376,738
Receivables & other assets	770,423	-	-	770,423
Cash and cash equivalents	5,017,934	-	-	5,017,934
	5,788,357	**3,376,738**	**-**	**9,165,095**
Payable & other liabilities	-	-	637,614	637,614
Advances from tenants	-	-	256,421	256,421
Wakala loan	17,102,554	-	-	17,102,554
	17,102,554	-	**894,035**	**17,996,589**

2014	Loans and receivables	Available-for-sale	Other finan-cial liabilities	Total carrying amount
Available-for-sale investments	-	3,402,161	-	3,402,161
Receivables & other assets	1,202,530	-	-	1,202,530
Cash and cash equivalents	3,736,836	-	-	3,736,836
	4,939,366	3,402,161	-	8,341,527
Payable & other liabilities	-	-	2,248,388	2,248,388
Advances from tenants	-	-	330,032	330,032
Wakala loan	17,102,554	-	-	17,102,554
	17,102,554	-	2,578,420	19,680,974

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21. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for at the date of consolidated statement of financial position but not provided for, relating to the Group, amounted to nil (2014: nil).

22. NON-CONTROLLING INTERESTS

The following table summarises the information related to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations.

31st December 2015 *In BHD*	**Al Yal Seef Residence**	**Al Yal Real Estate**	**Intra-group eliminations**	**Total**
NCI percentage	50%	50%		
Non-current assets	10,000,000	8,513,744	-	18,513,744
Current assets	623,780	16,724	(304,339)	336,165
Non-current liabilities	-	-	-	-
Current liabilities	442,639	12,625	(304,339)	150,925
Net assets	**10,181,141**	**8,517,842**	**-**	**18,698,983**
Net assets attributable to NCI	**5,090,572**	**4,267,766**	**-**	**9,358,338**
Revenue	1,030,646	-	-	1,030,646
Profit	690,712	(892)	-	689,820
OCI	-	-	-	-
Total comprehensive income	690,712	(892)	-	689,820
Profit allocated to NCI	345,356	(446)	-	344,910
OCI allocated to NCI	-	-	-	-
Cash flows from operating activities	-	11,876	-	11,876
Cash flows from investing activities	-	-	-	-
Cash flows from financing activities (dividends to NCI: nil)	-	-	-	-
Net increase in cash and cash equivalents	-	11,876	-	11,876

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22. NON-CONTROLLING INTERESTS (CONTINUED)

31 December 2014 *In BHD*	Al Yal Seef Residence	Al Yal Real Estate	Intra-group eliminations	Total
NCI percentage	50%	50%		
Non-current assets	10,000,000	8,434,670	-	18,434,670
Current assets	320,044	467,859	(463,010)	324,893
Non-current liabilities	-	-	-	-
Current liabilities	1,238,875	463,610	(463,010)	1,239,475
Net assets	9,081,169	8,438,918	-	17,520,087
Net assets attributable to NCI	4,540,585	4,228,671	-	8,769,256
Revenue	70,044	-	-	70,044
Profit	605,585	(17,659)	-	587,926
OCI	-	-	-	-
Total comprehensive income	605,585	(17,659)	-	587,926
Profit allocated to NCI	302,793	(8,830)	-	293,963
OCI allocated to NCI	-	-		-
Cash flows from operating activities	-	(273,389)	-	(273,389)
Cash flows from investing activities	-	-	-	-
Cash flows from financing activities (dividends to NCI: nil)	250,000	(29,475)	-	220,525)
Net increase (decrease) in cash and cash equivalents	250,000	(302,864)	-	(52,864)

23. APPROPRIATIONS

The Board of Directors have proposed the following appropriations for the year 2015:

	2015	2014
Cash dividend proposed – 5 fils per share	1,669,500	-
	1,669,500	-