Realising Potential

Annual Report 2010

البحرين الأولى

First Bahrain

H. H. Sheikh Sabah
Al-Ahmad Al-Jaber Al-Sabah

Amir of the State of Kuwait

H. H. Sheikh Nawaf
Al-Ahmad Al-Jaber Al-Sabah

Crown Prince of the State of Kuwait

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Contents

Company Profile

First Bahrain Real Estate Development Co. K.S.C. (First Bahrain) is an innovative real estate investment company, dedicated to achieving sustainable returns through collaborative relationships. First Bahrain creates enduring value for all stakeholders with a demand-driven investment approach. Operating out of offices in Kuwait and Bahrain, the Company is strategically positioned to execute projects across the GCC.

Established in October 2004 in Kuwait as Baraq Al Khaleej Holding Company, with a paid up capital of KD 1 million, the corporate name was later changed to First Bahrain Real Estate Development Company, and the paid up capital increased to KD 30 million. In 2007, First Bahrain opened an office in the Kingdom of Bahrain. Since its inception the Company has been guided by the principles of Islamic Sharia in all its daily operations and business interests.

The principal shareholders of First Bahrain are leading regional institutions and high-profile real estate investors, including KAMCO, Housing Finance Co. "Iskan," Action Group Holdings Co. and Wafra International Investments Co.

First Bahrain owns or holds rights to over 1,000,000 square feet of strategically located lands in the Kingdom of Bahrain.

The Company's inaugural project, Majaal, a Small-to-Medium-sized Enterprise (SME) focused warehousing development at the Bahrain Investment Wharf (BIW), within Salman Industrial City, near to both the new Khalifa bin Salman Port and the Bahrain International Airport, has been operational and generating a positive cash flow since February 2010.

Construction on Phase II of the development is scheduled to begin in 2011. The new facilities, which will more than double the leasable area to nearly 270,000 square feet, are expected to be open for business in 2012.

All real estate is valuable, but land often has potential that is unrealised. It takes vision to recognise potential. It takes entrepreneurial leadership, commitment, integrity and hard work to realise that potential. First Bahrain's vision is just that: To realise value potential.

Our Vision

Our vision is to realise value potential.

Our Mission

With entrepreneurial vision and innovation, First Bahrain exists to initiate and orchestrate real estate developments which bring enduring value and sustainable prosperity to both our communities and to our shareholders, through partnerships and investments made in accordance with the principles of Sharia.

Report of the Board of Directors

2010 was a landmark year for First Bahrain, representing the commencement of revenue generation from projects developed by the Company.

On behalf of the Board of Directors, it is my honour and duty to present this Annual Report and Consolidated Financial Statements of First Bahrain for the year ended 31 December 2010.

I am very pleased to announce that First Bahrain is reporting a net profit for the year, representing a significant reversal from the loss recorded in 2009.

2010 was a landmark year for First Bahrain, representing the commencement of revenue generation from projects developed by the Company. The Majaal Warehouse development opened its doors to its first tenants in February 2010 and by the end of the year, 70% of the facility was leased to a solid and diverse community of 14 different corporate tenants, a major achievement in a difficult and highly competitive market, still sluggish from the global financial crisis.

The successes in the leasing process demonstrated the Company's capabilities in the execution of a project from vision to reality, managing all phases of the development cycle from idea generation to design, construction, leasing and facilities management. The success was also reflective of the Company's consistent and effective marketing plan, which firmly established Majaal as the market leader for warehousing, as evidenced by attention received from several regional periodicals and news organisations.

Challenging Environment

All these achievements have come in the face of a very challenging environment. At the macro-economic level, 2010 proved to be another mediocre year, as the region continued its sluggish recovery from the global financial crisis and the implosion of the real estate bubble in Dubai and across the region.

The Kuwait Stock Exchange (KSE), and particularly its Real Estate Index, reflected the difficulties of the year in economic terms. The KSE Market Index remained flat, finishing down about 50 points, or 0.7% on the year at 6,955. The KSE Real Estate Index was down 436.5 points, being 15.6% at 2,355 on the year end, further affirming the wise decision taken in 2009 to refrain from listing the Company's shares on the KSE. In contrast, the Kuwaiti Dinar appreciated relative to other GCC currencies by about 2.1% on the year due to the weakness of the Dollar relative to the Euro.

Across the Gulf, real estate property values and rents continued to fall as market oversupply faced reduced demand. In Bahrain specifically, home to all of the Company's existing real estate assets, the market saw significant reductions off the peak in the rent levels for both office and residential properties, which are proving to be significantly oversupplied, particularly at the higher end of the residential market.

While rental prices for industrial warehousing faced similar downward pressure, a number of factors worked in Majaal's favour, leading to its successful leasing efforts. First, in the region surrounding the new Khalifa Bin Salman Port, there are little in the way of competing properties. Other warehousing has been available at less expensive rates, but many of these properties are old, substandard or in less than ideal locations. Accordingly, Majaal was able to maintain its asking prices due to the quality of its positioning within the strategically located private industrial park, BIW. Additionally, the open span structure of the building, along with other features, set the buildings apart from their competition, proving their suitability and desirability to tenants over cheaper but less well appointed space. Finally, the unit sizes of the facility represented a uniquely positioned offering which tapped into an under-served demand for smaller spaces required by SMEs.

The Majaal offering also proved its appeal to several foreign companies which established their local operations at our facility. This active facilitation of Foreign Direct Investment (FDI) and positive contribution to the economic goals of the nation earned the recognition and affirmation of the Bahrain Economic Development Board, the Minister of Commerce and Industry, and even H. M. The King of Bahrain, as each had interactions with Majaal throughout the year.

Financial Summary

In direct reflection of Majaal's success in the leasing process, the value of the Company's investment property increased by KD 478 thousand, contrasted against a loss of KD 2.1 million during 2009. This increase led to the positive results for the year, a gain of KD 85 thousand, a significant improvement from the KD 2.41 million loss reported in 2009.

Thanks to the conservative approach adopted in 2009, the overall value of the remainder of the Company's investment properties retained their value, despite continued downward market pressure and an environment where land transactions were virtually non-existent. As a result, at the end of 2010, the Non-Current Assets of the Company had increased to KD 31.7 million from KD 31.0 million in 2009. A 2.1% reduction in the Bahraini Dinar, the currency in which the majority of the Company's Assets are held, relative to the Kuwaiti Dinar, led to a reduction in the overall value of the Company's Assets to KD 41.2 million from KD 41.7 million at the end of 2009.

In a strong sign of support from the Company's banking relationships, the Company completed

Majaal's active facilitation of Foreign Direct Investment (FDI) and positive contribution to the economic goals of the nation earned the recognition and affirmation of the Bahrain Economic Development Board, the Minister of Commerce and Industry and even H. M. The King of Bahrain.

payment of the construction of the first phase of the Majaal development with a KD 561 thousand extension of the existing debt finance facility previously extended by Kuwait Finance House - Bahrain, raising the overall long-term finance level to KD 989 thousand, up from KD 437 thousand in 2009.

The Company's solid liquidity has been maintained from 2009 into 2010. Even with this new financing facility, the debt level for the Company remained nominal relative to Current Assets, which stood at 8.2 times Total Liabilities with Cash and Cash Equivalents representing 21% of Total Assets.

Such liquidity metrics give continued evidence of the Company's consistent, conservative and well-controlled approach to the management of the resources entrusted to it by the shareholders. The Company continues to stand apart from its peers through its faithful commitment to its Sharia-guided investment philosophy and focus on domestic demand driven developments designed to bring enduring value and sustainable prosperity.

2011 Strategy

As we look ahead to 2011, the Board of Directors continues to take a conservative approach to growth and development, maintaining measured forward progress in a risky environment. The business plan for the year ahead focuses primarily on the expansion of Majaal while positioning the Company to use its cash-rich position to pursue any opportunistic investments which come available.

Phase II of Majaal will see the leasable area of the development more than double to nearly 270,000 square feet. With leasing of Phase I expected to be complete by the middle of 2011, the Company will look to Phase II to expand its revenue base and start generating additional cash flows from 2012, once the year-long construction programme is complete.

The Company will also be actively looking towards the expansion of Majaal beyond Bahrain during 2011. First Bahrain has already been in contact with several investment banks which have expressed interest towards this end. Now that Majaal has been operational for nearly a year, its existence as an active company with measurable cash flows enhances the offering substantially, and represents the reason for the interest received by potential investors.

Beyond Majaal, First Bahrain is working towards the development of a portion of its land in Seef, in response to an identified supply gap. While plans are at an early stage, the Company is pursuing options with credible partners which will add significant value to our property over the coming years. We are very eager to activate this strategic property which the Company has held since its founding.

Given the current weakness of demand for up-market rental housing and dwellings which cater to Saudi-commuter demand, the Company's plans for its land in Janabiya are under review, as management studies alternative plans and looks for partners to join in the development of the property.

Despite the continued malaise in the regional real estate market, I am excited about the pursuit of the opportunities discussed above and their prospects for success. I firmly believe that the Company has a bright and successful future ahead, which it is well-positioned to grasp, thanks to our prudent and measured approach and the hard work of our experienced and proven management team.

Transitions & Acknowledgements

The year has seen a number of transitions in the membership of the Board of Directors. I would like to wish farewell to our former Vice Chairman, Ms. Shahnaz Qabazard and thank her for her service.

Likewise, we extend our congratulations to our former Audit Committee Chairman, Dr. Nayef Al Hajraf, one of our last two founding members of the Board, who left us to accept a full-time appointment to be one of the five independent commissioners of the new Capital Markets Authority. In his place, representing Action Group Holdings, I welcome to the Board of Directors Mr. Ali Al-Mahri, Action's General Manager for Oman.

In closing, on behalf of the Board of Directors, I extend my sincere best wishes to H. H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, the Amir of the State of Kuwait, and to H. H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince of the State of Kuwait, for their wise leadership and dedication to advancing the prosperity and promising future of the State of Kuwait.

Likewise, I express appreciation to all governmental ministries, supervisory bodies, and regulatory authorities of the State, for their constructive support and sage guidance.

Finally, I also offer my sincere gratitude to our shareholders for their continued faith and confidence; to our tenants for their loyalty and trust; to our business partners for their counsel and support; and to our management and staff for their professionalism and dedication to duty.

May Almighty God grant us all sustained success and prosperity.

Salah Ahmed Al-Wuhaib
Chairman

Special Features

MAJAAL™

The development opened its doors to its first tenants in February 2010 and by the end of the year, 70% of the facility was leased to a solid and diverse community of 14 different corporate tenants, a major achievement in a difficult and highly competitive market.

Project Profile – Phase I:

Project:	Majaal Warehousing Development – Phase I
Target Market:	Small to Medium Enterprises
Location:	Bahrain Investment Wharf, Salman Industrial City, Kingdom of Bahrain
Value:	US$ 15 million
Leasable Area:	130,000 square feet
No. of Tenants:	14 in 2010
Occupancy Rate:	70%
Average Lease Term:	45 months

The initial phase of First Bahrain's inaugural project, an SME-focused warehousing and logistics facility at BIW, was completed on time and on budget as 2009 drew to a close. The first three buildings of the US$ 45 million development offer nearly 130,000 square feet of leasable warehouse space in units which start at 2,700 square feet and upwards.

The first tenants occupied the facility in February 2010. By the end of the year, 70% of the facility was leased to a diverse and stable community of 14 different corporate tenants, the majority of whom signed-on during the final quarter, in direct result to a major marketing push by the Company. First Bahrain is proud of the tenant mix secured, with a range of established local organisations, regional and international companies wishing to set up their headquarters at Majaal. At the current rate, it is expected that the facility will be fully leased before mid-year 2011.

Majaal has facilitated Foreign Direct Investment (FDI), advancing the economic goals of the government and receiving the recognition and attention of the Bahrain Economic Development Board, the Minister of Commerce and Industry, H. R. H. The Prime Minister of Bahrain and even H. M. The King of Bahrain, as each had interactions with Majaal throughout the year.

Majaal is uniquely positioned, offering high specification facilities and ready to run workspaces in unit sizes that support growing businesses. Majaal has been purpose-built and offers tenants an unobstructed workspace lending itself perfectly to customisation for existing needs, as well as presenting options for expansion as businesses grow.

Majaal caters to the increasing warehousing needs of SMEs, which constitute the engine of growth for every economy. Majaal aims to raise the bar for warehousing developments by providing modern spatial solutions designed to international standards, complemented by a wide range of value-added services, including 24/7 security, state-of-the-art Information and Communication Technology (ICT), assistance with fit-out works, and leasable materials-handling equipment such as forklift trucks. The complex is situated at BIW, a landmark US$ 1.6 billion mixed-use industrial, logistics, commercial development, covering 170 hectares in the newly designated Salman Industrial City. BIW is strategically located near Bahrain International Airport and the new deep water Khalifa bin Salman Port which opened in April 2009. With easy access to the city centre, the King Fahd Causeway to Saudi, and the planned Friendship Causeway to Qatar, the site is well connected to all transport hubs.


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MAJAAL

Special Features

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MAJAAL™

Phase II will see the leasable area of the development more than double to nearly 270,000 square feet, generating additional cash flows from 2012, once the year-long construction programme is complete.

Project Profile – Phase II:

Project:	Majaal Warehousing Development – Phase II
Target Market:	Small to Medium Enterprises
Location:	Bahrain Investment Wharf, Salman Industrial City, Kingdom of Bahrain
Value:	US$ 15 million
Leasable Area:	140,000 square feet
Engineer:	Mohammed Salahuddin Consulting & Engineering Bureau
Cost Consultants:	Baker Wilkins & Smith (Middle East)

Majaal delivers. With its first phase developed on-time and on-budget, and now with the facility nearing completion of the leasing process, Majaal stands ready to commence of Phase II of its development. The new building will more than double the amount of leasable area to a total of nearly 270,000 square feet.

Majaal's Phase II takes the industrial warehousing and logistics complex to a higher level, by raising both the floor and the ceiling. Majaal offers the smallest available column-free open-span warehousing units with raised flooring for direct large truck access and 12 meter high ceilings for more efficient storage of fast moving goods. Majaal makes first-rate facilities available to small and medium sized companies.

In addition to the core warehouse space, the facility will include a management office for Majaal as well as a purpose built business centre which will support the tenant community while generating its own revenue stream.

The new building has been designed by Mohammed Salahuddin Consulting Engineering Bureau (MSCEB), who will also serve as the project and construction managers. Cost Consultants BWS Middle East (BWS) will continue to help ensure that all expenses will be measured properly and kept under strict control.

In this project, First Bahrain is building more than just a collection of warehouses. Rather, a unique and timely business is being built in Majaal Warehouse Company. Recognising a gap in the market between full-service third-party logistics (3PL) operators and standard warehouse sheds with no services or security, First Bahrain has created both a development to cater to this market need along with a company to operate that development.

Illustrative of the Company's entrepreneurial, sustainable and demand-driven approach to real estate development, Majaal favourably positions First Bahrain to earn future revenues from both development and sale or lease of buildings, along with the provision of value added facility management services. With a strong business model and brand identity, Majaal is poised for regional expansion.

Executive Management Review

2010 was a year where First Bahrain began to realise its potential. On the back of a major success in leasing 70% of our inaugural project, Majaal, I am pleased to confirm that the Company is reporting a net gain for the year, despite the ongoing global economic difficulties and slow regional recovery, particularly in the real estate sector.

This achievement completes the development cycle for our first project, demonstrating the skill and professionalism of the First Bahrain team. From the early days of my appointment in 2007, First Bahrain has been planning an industrial development which would address a clear supply-gap in the market. At a time when the majority of development companies were focused on building luxury freehold apartments, a product which is oversupplied and generally unsellable, land for this development was acquired at the strategic new master development, the BIW, close to the new Khalifa Bin Salman Port, the Bahrain International Airport and road links to Saudi Arabia.

Believing the fundamentals of the development were sound despite the gathering economic storm clouds, First Bahrain went ahead with the construction of Majaal in 2009, completing the complex on-time and on-budget as the year drew to a close. The first tenants were welcomed in February 2010. Even as some other warehousing developments began to try and compete with Majaal on price, a consistent stream of tenant signings proved that mix of high quality facilities and value-added services represented a winning solution. The open span structure of the buildings combined with the generally smaller unit sizes helped our development tap into the under-served demand for such space required by SMEs.

Majaal also proved to be appealing to international investors looking to setup companies in Bahrain. Such support of Foreign Direct Investment (FDI) and the economic goals of the nation earned the recognition and affirmation of the Bahrain Economic Development Board, the Minister of Commerce, H. R. H. The Prime Minister of Bahrain and even H. M. The King of Bahrain and as each had interactions with Majaal throughout the year. A particular personal highlight was my opportunity to represent First Bahrain and to be recognised by His Majesty, King Hamad bin Isa Al Khalifa, when he inaugurated the Salman Industrial City at a special ceremony in January 2010.

Beyond this recognition from H. M. The King of Bahrain, Majaal has stayed in the public eye throughout the year. Through the fruits of a well planned and executed marketing and public relations campaign, stories about our innovative new warehousing development were regularly featured in the local press and in both local and regional periodicals, including Arabian Knight, BIG and Construction Week magazines. A particular highlight came in November 2010 when Majaal was featured on the cover of Gulf Industry Magazine.

As an entrepreneurial developer of a new real estate concept in the midst of a difficult market, First Bahrain has also successfully positioned itself as a thought leader, evidenced by a growing number of requests for interviews by such organisations as the Oxford Business Group and CNBC, who requested a live TV interview for their global morning business review programme. Links to these and other such stories are catalogued on our website at www.firstbahrain.com. I invite you to visit the Press & Media page throughout the year for stories about our progress and achievements.

This entrepreneurial spirit, which led us to create Majaal as a brand with international appeal and a trademark which has been successfully registered in each of the countries of the GCC, is positioning the Company for expansion. More than just a once-off development, we are preparing to replicate Majaal in other countries across the region. The success of both our leasing efforts and our thought leadership campaign has earned us attention from investment banks and other investors who have shown early interest in partnering with us to grow the business. The Company's demonstrated ability to execute on its projects and its stable cash flows, along with its growing brand equity, are all part of the value proposition which the investors are finding to be appealing. We hope to realise such potential for growth in the year ahead.

Looking forward to 2011, our initial focus will be on the completion of the leasing process for Phase I. We also expect to break ground on Phase II of Majaal at BIW. The new building will more than double the leasable area of the development to nearly 270,000 square feet. With leasing of Phase I expected to be complete by mid-year 2011, the Company will look to Phase II to expand its revenue base and start generating additional cash flows from 2012, once the year-long construction programme is complete.

The expanded facility aims to take the industrial warehousing and logistics complex to a higher level, by raising both the floor and the ceiling. Phase II will offer the smallest available column-free open-span warehousing units

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Beyond Majaal, First Bahrain is actively working on a plan to develop a portion of its strategic land holdings in the Seef District, in response to an identified supply gap. Activating this plot located across the street from the City Centre Mall, being the Company's key holding since its founding in 2004, is a high priority for First Bahrain. While plans are still at an early stage, the Company is pursuing options with credible partners which will add significant value to the Company's investment property portfolio in the years ahead.

We will likewise continue to investigate suitable development opportunities for the Company's property in Janabiya, tentatively earmarked for a mixed-use commercial and residential project. With the current softness in the demand for up-market rental housing and dwellings which cater to Saudi commuters, the Company is reviewing its plans and is looking for partners to join in the development of the property.

As we press ahead confidently, yet cautiously in these difficult market conditions, we will continue to exercise the conservative self-discipline and fiscal restraint that enabled First Bahrain to finish the past year well within budget, achieving a 23% reduction in operating costs when compared with 2009. We are committed to being good stewards of the resources entrusted to us by the shareholders.

We appreciate your faith in us and we look forward to future success of the plans discussed as we seek to realise our potential and provide you with your just rewards.

In conclusion, I extend my sincere thanks to the Board of Directors for their unwavering confidence in our efforts and wise guidance in providing direction and accountability. I extend our warm appreciation to our business partners for their ardent support and professionalism. Most importantly, I offer my deep gratitude to each member of our staff for your hard work, dedication to duty and your unwavering loyalty. I appreciate and celebrate both your individual and collective contributions during these challenging and uncertain times.

I look forward to better days ahead as we work together to achieve our dreams and aspirations during 2011 and beyond.

Amin Ahmed Al Arrayed
General Manager

Board of Directors

Mr. Salah Al-Wuhaib
Chairman

Senior Vice President, Discretionary Portfolios, MENA Asset Management Dept., KIPCO Asset Management Co., KAMCO

Mr. Al-Wuhaib currently manages the MENA Asset Management Dept. at KAMCO. He is also a Board Member at Housing Finance Co. "Iskan." Mr. Al-Wuhaib previously worked with the Kuwait Fund for Arab Economic Development; Wafra Investment Advisory Group based in New York; and the Kuwait Investment Authority. Mr. Al-Wuhaib holds a Bachelors degree in Business Administration, majoring in Management, from Eastern Washington University, USA.

Ms. Rasha Al-Awadi
Director, Audit Committee Chairperson

Senior Vice President – Asset Management & Investment Department, Housing Finance Co. "Iskan"

Ms. Al-Awadi is the Senior Vice President for Asset Management and Investment at Housing Finance Co. "Iskan." She has previously worked for Global Investment House, Kuwait Investment Co. and Kuwait Foreign Trading, Contracting and Investment Co. Her qualifications include Accredited Professional Accountant and Certified Global Investment Analyst from the American Institute for Financial Business and Research; and Certified Internal Auditor from the American Institution of Internal Auditors; and Arbitrator from the Kuwait Commercial Arbitration Centre. Ms. Al-Awadi is a Member of the Kuwait Association of Accountants and Auditors. Ms. Al-Awadhi holds a Bachelors degree in Accounting and Auditing from Kuwait University.

Mr. Abdulkarim Al-Khulaifi
Director

Manager, Department of Public Relations and Information, PIFSS

Mr. Al-Khulaifi is Manager in the Department of Public Relations and Information for the Public Institute for Social Security (PIFSS). With more than 30 years experience including senior positions at PIFSS in Human Resources and Public Relations along with posts as lecturer at both the Public Authority for Applied Education and Training and the Civil Service Commission. Mr. Al-Khulaifi conducted numerous academic studies in the field of enhancing client's service. He is a member of the International Social Security Association; the International Public Relations Association; the Gulf Cooperative Council's Technical Committee for Retirement; and serves as Secretary of the Kuwait Public Relations Society.
Mr. Al-Khulaifi holds a Bachelors degree in Business Administration from Kuwait University.

Mr. Talal Al-Omaim
Director

Senior Vice President - Real Estate Services, Housing Finance Co. "Iskan"

Mr. Al-Omaim is currently serving as both the Senior Vice President of the Real Estate Department at Housing Finance Co. "Iskan," and General Manager of the Al-Iskan Real Estate Co. (an Iskan subsidiary). Before joining Iskan, he worked with Burgan Bank and the Bank of Kuwait and the Middle East (BKME). Mr. Al-Omaim holds a Diploma in Professional Property Financing and Evaluation.

Mr. Khalifa Al-Tararwa
Director

Vice President, Real Estate Services Administration, Housing Finance Co. "Iskan"

Mr. Al-Tararwa is currently the Vice Chairman of the Housing International Real Estate Development Co., and until recently Vice President – Real Estate Services Administration at Housing Finance Co. "Iskan." He previously worked for the Kuwaiti Fund for Development. His career spans 25 years in the Kuwait real estate market, including extensive experience in real estate investment and trading management, and information systems management. Mr. Al-Tararwa holds a Bachelors degree in Computer Science from Ashland University, USA.

Ali Said Al-Mahri
Director

General Manager, Oman Branch, Action Group Holdings Co.

Mr. Ali Al-Mahri is currently General Manager, Oman Branch for Action Group Holdings Co. where he also serves as supervisor for the United Arab Emirates branch. Mr. Al-Mahri is a Board Member of both Global Housing Real Estate Development Co. in Kuwait and the Oman Porcelain Co. He has 10 years experience in finance within the government sector. A Fellow of the Chartered Accountants Association, Mr. Al-Mahri holds a Bachelors degree in Economics and Accounting from University of Jordan and a Diploma in Military Science from Royal Military College, United Kingdom.

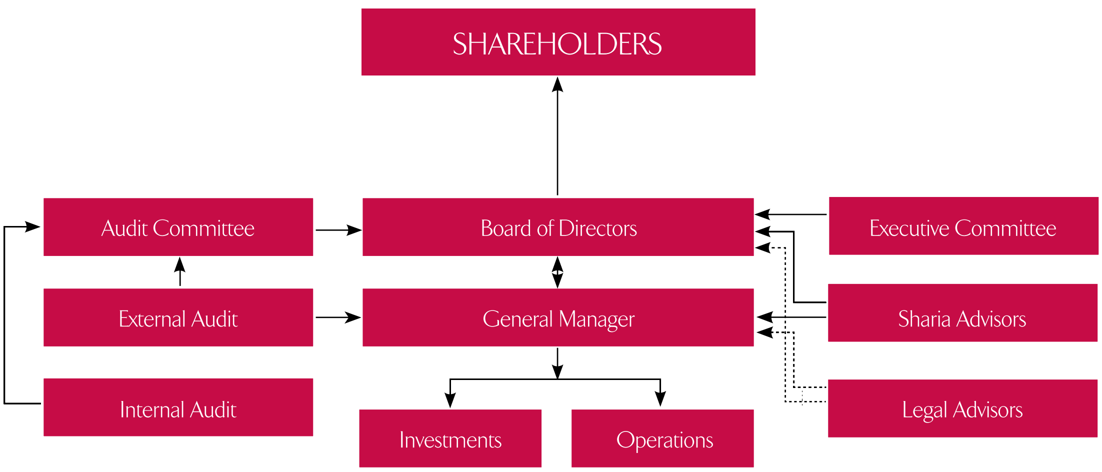
Corporate Governance

First Bahrain recognises the importance of sound corporate governance as a critical factor in attaining fairness for all stakeholders, enhancing shareholder value, and achieving organisational integrity and efficiency. The Company is committed to full compliance with the appropriate rules and regulations of relevant regulatory authorities in those jurisdictions where it operates.

The Company has a corporate governance structure in place that clearly segregates organisational functions and responsibilities. This structure reflects the division of roles and responsibilities between the Chairman of the Board, the Board of Directors and the Board Committees; the General Manager and the Executive Management team; and those corporate functions, such as Compliance, Internal Audit and Risk Management, which report through relevant Board Committees to the Board.

The Board comprises six Directors, whose appointment reflects the shareholding of the Company. The Directors have a diverse range of skills and experience, and each brings an independent judgment and considerable knowledge to the Board's discussions. Their profiles are listed separately in this Annual Report. The Board is supported by two committees – the Executive Committee and the Audit Committee – together with Sharia advisory services from Al Mashora and Al Raya for Islamic Financial Consulting.

The General Manager, supported by the Executive Management team, is delegated by the Board with responsibility for the day-to-day management of the Company. The team comprises well qualified professionals with regional and international career backgrounds, and relevant experience in key areas such as banking, investments, real estate development, and business administration. Their profiles are listed separately in this Annual Report.



Risk Management

The Board has established a risk management structure for the Company that clearly defines roles, responsibilities and reporting lines. Primary responsibility for managing risk rests with the Executive Management, while the Board, through its Audit Committee, oversees the Company's risk management efforts.

One of the cornerstones of the Company's risk management approach is a well defined system of delegated authorities with respect to the commitment of capital. Its investment approval process brings rigour to the selection, assessment and approval of risks assumed under each of the Company's principal investment activities. Matters such as legal, accounting and general risk assessment are considered in each case.

The Company's Internal Audit function, performed by Protiviti, a global internal audit and risk consulting firm, provides independent reporting to the Audit Committee with respect to the management of risk, and also provides comment on the effectiveness of the design and operation of controls across the Company.

The main risks to which the Company is exposed are credit risk, liquidity risk and market risk, the latter comprising profit rate risk, foreign currency risk and equity price risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Company's strategic planning process.

Additional information on specific risk exposures is included in the Notes to the Consolidated Financial Statements in this Annual Report.

Executive Management

Amin Al Arrayed
General Manager

Mr. Al Arrayed has skilfully provided wise and stable leadership to the Company throughout a period of tremendous market volatility over the past four years. He brings an in-depth knowledge of banking, financial services and real estate developed over a 14 year career. Prior to being selected to lead First Bahrain, he was Head of Retail and Placement at Reef Real Estate Finance Company, and Regional Head of Retail Banking at BBK, in the Kingdom of Bahrain. Mr. Al Arrayed holds an MBA from the Kellstadt Graduate School of Business at DePaul University, Chicago, USA; and a BSc degree in Economics from the University of Redlands, California, USA.

Daniel Taylor
Head of Operations

Mr. Taylor leads the Operations team and is responsible for the financial management and operations of company, including all marketing, administrative and legal affairs. An entrepreneur, with a diverse career spanning 22 years, Mr. Taylor has a wealth of operational and management experience. Prior to joining First Bahrain, he was General Manager of New York Coffee, and General Manager of Mariner Technologies, where he was the chief architect of the GCC business news portal, TradeArabia.com. A member of the Urban Land Institute and the American Chamber of Commerce in Bahrain, Mr. Taylor holds an MBA from the Kellstadt Graduate School of Business at DePaul University, Chicago, USA; and a BA degree from the University of Virginia, USA.

Yasser Abu-Lughod
Head of Development

Mr. Abu-Lughod brings over 25 years of international project management and engineering experience to the team at First Bahrain where he serves as the Head of Development, leading the company's development efforts from concept to construction to commissioning and beyond. Prior to joining First Bahrain, Mr. Abu-Lughod worked as senior project manager for Mace International where he managed the infrastructure design and construction phases for Bahrain Bay Development project. He also held several senior posts at VicRoads in Victoria, Australia and GHD Global where he played a key role in the success of infrastructure projects in Al Khore Qatar. Mr. Abu-Lughod holds a B.Sc. in Civil Engineering from University of Wisconsin, Milwaukee; USA. He is also Chartered Professional Engineer and a member of the Institution of Engineers in Australia, and holder of Project Management Professional certification (PMP) and a member of the Project Management Institute PMI.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MAJAAL

Report of the Sharia Advisory Board
31 December 2010

Praise is only to Allah and Peace and Blessing on the last Prophet, his family and companions.

To the Shareholders of First Bahrain Estate Development Co. (KSC)

Allah's Peace & Blessings on you,

As per Engagement Contract Signed with us, we have audited the contracts and transactions executed by the company during the fiscal year ended on 31/12/2010 to express our opinion on extent of the company compliance with the provision of Islamic Sharia as described on the opinions, guidelines and Sharia decisions issued by us.

Compliance with implementation of contracts and transactions in accordance with the provisions of Islamic Sharia shall be the responsibility of the company management. However, our liability is limited to expression of independent opinion on the extent of the company compliance with same based on our audit.

We have conducted our audit according to the controls criteria issued by Accounting & Audit Panel for Islamic Financial Institutions which require us to plan and implement audit procedures in order to obtain all information, interpretations and declarations that we deem necessary for providing us sufficient evidences to give reasonable confirmation that the company is in compliance with the provisions of Islamic Sharia as stated by us.

We have conducted our audit on the basis of examining samples of each type of contracts and transactions executed during the period. We believe that audit activities we have undertaken provide a proper basis for expressing our opinion.

In our opinion:
- The company, during the specified fiscal period, has conducted its duties towards execution of contracts and transactions in accordance with the provisions of Islamic Sharia as described on opinions, guidelines and sharia decisions by us.
- The company is not authorized to perform Zakat and the responsibility of the same shall reside in the shareholders.

Allah's Peace & Blessings may be upon you.

Sharia Advisory Board:

Prof. Abdul Razzaq Khalifa Al-Shaiji	**Mr. Mohammad Al Jaser**	**Mr. Abdul Aziz Al jarallah**
Board Chairman	Member	Executive Member

Al Mashora & Al Raya for Islamic Financial Consulting

Report of the Independent Auditor
31 December 2010

The Shareholders
First Bahrain Real Estate Development Company K.S.C. (Closed)
State of Kuwait

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of First Bahrain Real Estate Development Company K.S.C. (Closed) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of 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.

Management's responsibility for the consolidated financial statements
Management 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 management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 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, 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 principles 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 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 2010, 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 as at and for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2010.

Report on other legal and regulatory requirements
We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year of the Kuwait Commercial Companies Law of 1960, as amended, or the Company's articles and memorandum of association, that would materially affect the Group's activities or its consolidated financial position.

License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International
Kuwait: 24 March 2011

CONSOLIDATED FINANCIAL STATEMENTS

Contents

Consolidated statement of financial position

as at 31 December 2010

	Note	2010 KD	2009 KD
Assets			
Investment property	5	31,655,883	30,919,324
Furniture and equipment		79,282	84,458
Total non-current assets		31,735,165	31,003,782
Trade and other receivables	6	130,337	97,694
Investments at fair value through profit or loss	7	630,546	845,014
Islamic finance facilities	8	8,000,000	8,918,346
Cash on hand and at banks	8	685,339	883,536
Total current assets		9,446,222	10,744,590
Total assets		41,181,387	41,748,372
Equity and liabilities			
Equity			
Share capital	9	31,500,000	31,500,000
Statutory reserve	10	1,467,000	1,455,394
Foreign currency translation reserve		(342,070)	182,913
Retained earnings		7,393,627	7,320,382
Total equity		40,018,557	40,458,689
Non-current liabilities			
Long-term murabaha payable	11	561,169	437,620
Provision for employees' end of service indemnity		18,756	11,581
Total non-current liabilities		579,925	449,201
Current liabilities			
Short-term murabaha payable	11	428,048	-
Trade and other payables	12	154,857	840,482
Total current liabilities		582,905	840,482
Total liabilities		1,162,830	1,289,683
Total equity and liabilities		41,181,387	41,748,372

Salah Ahmed Al-Wuhaib
Chairman

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Note	2010 KD	2009 KD
Income			
Change in fair value of investment property		478,801	(2,147,335)
Net rental income		15,912	-
Realised gain on sale of investments at fair value through profit or loss		-	8,620
Unrealised loss on investments at fair value through profit or loss		(214,468)	(576,355)
Income from Islamic finance facilities		524,715	635,459
Write back of impairment on Islamic finance facilities		-	483,388
Foreign exchange gain		21,123	8,380
Total income/ (loss)		826,083	(1,587,843)
Expenses and other charges			
General, administrative and marketing expenses		(241,379)	(361,843)
Depreciation		(53,005)	(67,860)
Staff costs		(345,970)	(397,297)
Finance costs		(69,673)	-
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(1,044)	-
Zakat		(1,161)	-
Board's remuneration		(29,000)	-
Total expenses and other charges		(741,232)	(827,000)
Profit/ (loss) for the year		84,851	(2,414,843)
Other comprehensive income			
Foreign currency translation differences for foreign operations		(524,983)	856,980
Other comprehensive income for the year		(524,983)	856,980
Total comprehensive income for the year		(440,132)	(1,557,863)
Earnings/ (losses) per share (fils)	13	0.27	(7.67)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2010

	Share capital KD	Statutory reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2009	31,500,000	1,455,394	(674,067)	9,735,225	42,016,552
Total comprehensive income for the year					
Net loss for the year	-	-	-	(2,414,843)	(2,414,843)
Other comprehensive income	-	-	856,980	-	856,980
Total comprehensive income for the year	-	-	856,980	(2,414,843)	(1,557,863)
Balance at 31 December 2009	31,500,000	1,455,394	182,913	7,320,382	40,458,689
Total comprehensive income for the year					
Net profit for the year	-	-	-	84,851	84,851
Other comprehensive income	-	-	(524,983)	-	(524,983)
Total comprehensive income for the year	-	-	(524,983)	84,851	(440,132)
Transfer to statutory reserve	-	11,606	-	(11,606)	-
Balance at 31 December 2010	31,500,000	1,467,000	(342,070)	7,393,627	40,018,557

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2010

	Note	2010 KD	2009 KD
Cash flows from operating activities:			
Profit/ (loss) for the year		84,851	(2,414,843)
Adjustments for:			
Depreciation		53,005	67,860
Realised gain on investments at fair value through profit or loss		-	(8,620)
Unrealised loss on investments at fair value through profit or loss		214,468	576,355
Write back of impairment on Islamic finance facilities		-	(483,388)
Change in fair value of investment property		(478,801)	2,147,335
Finance costs		69,673	-
Loss on disposal of furniture and equipment		-	10,357
Provision for employees' end of service indemnity		7,175	5,238
Operating loss before changes in working capital		(49,629)	(104,944)
Trade and other receivables		(32,643)	480,409
Investments at fair value through profit or loss		-	163,325
Islamic finance facilities		153,058	(130,235)
Trade and other payables		(685,625)	(46,531)
Net cash (used in)/ from operating activities		(614,839)	362,024
Cash flows from investing activities:			
Additions to investment property		(716,383)	(1,864,898)
Paid for purchase of furniture and equipment		(47,025)	(4,149)
Net cash used in investing activities		(763,408)	(1,869,047)
Cash flows from financing activities:			
Net movement in murabaha payable		551,597	16,329
Finance costs paid		(69,673)	(38,406)
Net cash from/ (used in) financing activities		481,924	(22,077)
Net decrease in cash and cash equivalents		(896,323)	(1,529,100)
Net foreign exchange difference		(67,162)	20,035
Cash and cash equivalents at the beginning of the year		9,648,824	11,157,889
Cash and cash equivalents at the end of the year	8	8,685,339	9,648,824

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. Reporting group

First Bahrain Real Esate Development Company K.S.C. (Closed) ("the Company") was incorporated as a Kuwait Shareholding Holding Company on 5 October 2004. The Company is engaged in activities in accordance with Noble Islamic Shari'ah, which include:

- Trading, management and development of properties inside and outside Kuwait.
- Owning, buying and selling of stocks and bonds of real estate companies inside and outside Kuwait.
- Performing maintenance of properties, including mechanical, electro-mechanical, and air conditioning activities.
- Performing real estate advisory services, feasibility studies and real estate appraisals.
- Managing, operating and leasing hotels, clubs, residential buildings, touristic and health care resorts and providing support services.

The Company's main office is at Al Khaleej Tower, 15th Floor, Abu Baker Al Sadeeq Street, Al Qibla, Kuwait.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group"). A list of subsidiaries follows:

Name of the company	Country of incorporation	Percentage of ownership	Principal activities
First Kuwait Al Seef Real Estate Development Company W.L.L.	Kingdom of Bahrain	100%	Real estate and investment activities
FB Janabiya Residential Development Co. W.L.L.	Kingdom of Bahrain	100%	Real estate and investment activities
Majaal Warehouse Co. W.L.L.	Kingdom of Bahrain	100%	Real estate and investment activities

Subsidiaries include shares of KD 519 as at 31 December 2010 (KD 519 as at 31 December 2009) which are registered in the name of others on behalf of the Group, and there are letters of renunciation in favour of the Group.

The total number of employees in the Group was 16 as at 31 December 2010 (18 employees as at 31 December 2009).

The consolidated financial statements were authorized for issue by the Board of Directors on 24 March 2011, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting.

2. Basis of preparation

a) Statement of compliance
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Committee of the IASB and the requirements of the Kuwait Commercial Companies Law of 1960, as amended, the Company's articles and memorandum of association and the Ministerial Order No. 18 of 1990.

b) Basis of measurement
The consolidated financial statements have been prepared on fair value basis for financial assets and liabilities carried at fair value through profit or loss. Non-financial assets and liabilities are stated at amortised cost or historical cost as modified by the revaluation of investment property.

c) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kuwaiti Dinars, which is the Group's presentation currency.

d) Use of estimates and judgments
The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 4.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

e) Changes in accounting policies

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010, and have been adopted in the current year.

- *IFRS 3 Business Combinations* (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

- *IAS 27 Consolidated and Separate Financial Statements* (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes in accounting policy resulting from the adoption of IFRS 3 (Revised) and consequential amendments to IAS 27 were applied prospectively and had no material impact on earnings per share.

None of the other new standards, interpretations and amendments effective for the first time from 1 January 2010, have had a material effect on the consolidated financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

a) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2010 include the Company and its subsidiaries referred to in note 1.

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power directly or indirectly to govern the financial and operating policies of subsidiaries so as to obtain benefits from their activities.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any intra-group balances and transactions, and any unrealized gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The consolidated financial statements are prepared using uniform accounting policies.

The subsidiaries' accounts are based on their management accounts for the year ended 31 December 2010. Total assets, liabilities and net profit of the subsidiaries as per these financial statements (after eliminations) amounted to KD 24,173,529 - KD 111,996 and KD 50,974 respectively.

b) Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary items denominated in foreign currencies which are stated at fair value are translated to the functional currency at the exchange rates ruling at the date of determining the fair value. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated to Kuwaiti Dinar at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Kuwait Dinar at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

c) Investment property
Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Fair value measurement on property under development is only applied if the fair value is considered to be reliably measurable.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

d) Furniture and equipment
Furniture and equipment are measured at cost less accumulated depreciation and impairment losses (see note 3(h)). Depreciation is calculated to write off the cost of furniture and equipment by equal installments over their estimated useful lives as follows:

Furniture and office equipment	5 years
Computers and electronics	3 years
Leasehold improvement	3 years
Fixtures	10 years

The useful life, depreciation method and residual value of furniture and equipment at the end of their useful lives are reviewed annually to ensure that the method and period of depreciation is in line with the expected pattern of economic benefits from items of furniture and equipment. A change in the estimated useful life of furniture and equipment is applied at the beginning of the financial year of change with no retroactive effect.

e) Receivables
Receivables are stated at cost less impairment losses (see note 3(h)). The Group's receivables include trade and other receivables and Islamic finance facilities.

f) Investments at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value.

The amounts of each class of investments that has been designated at fair value through profit or loss are described in note 7.

Financial instruments at fair value through profit or loss are measured initially at fair value. Transaction costs on financial instruments through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments measured at fair value through profit or loss are measured at fair value with changes in their fair value recognized in profit or loss.

The fair value of financial instruments classified as financial assets at fair value through profit or loss is their quoted market price at the reporting date. If the quoted market price is not available, the fair value of the investment is estimated using generally accepted valuation methods such as discounted cash flow techniques or net asset value or market price of similar investments.

Financial assets at fair value through profit or loss are recognised or derecognised on the trade date i.e., on the date the Group commits to purchase or sell the investments.

g) Cash and cash equivalents
Cash and cash equivalents include cash on hand and at banks and highly liquid financial assets with original maturities of less than three months.

h) Impairment
Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognised in profit or loss.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Non-financial assets
The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

i) Payables
Payables are stated at amortised cost. The Group's payables include trade and other payables and murabaha payable.

j) Provisions
Provisions are recognized in the consolidated financial statements 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

k) Provision for employees' end of service indemnity
Provision is made for employees' end of service indemnity payable under the Kuwait labour law in private sector, based on employees' accumulated periods of service and latest entitlements of salaries, or on the basis of employment contracts, where such contracts provide extra benefits. The provision which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment at the reporting date. Employees of the Group's subsidiaries in the Kingdom of Bahrain are entitled to post-service benefits under Bahrain laws.

l) Revenue recognition
- Rental income from operating leases is recognised on a straight-line basis over the lease term.
- Income from Islamic finance contracts and deposits is recognized on a time proportion basis to achieve fixed rate of return on outstanding balances for these transactions.
- A property is regarded as sold when the significant risks and returns have been transferred to the buyer. Any gains or losses on the disposal of investment property are recognised in profit or loss in the year of disposal.
- Dividends income is recognized when the Group's right to receive dividends is established.
- Other revenues and expenses are recognized on an accrual basis.

m) New standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements, with earlier application permitted, and could change the classification and measurement of financial assets. The Group is currently considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

4. Use of estimates and judgments

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year, are as follow:

Valuations of property
The determination of the fair value of investment property requires the use of estimates. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment property under development. These estimates are based on local market conditions existing at the reporting date.

The continuing volatility in the global financial system is reflected in the turbulence in commercial real estate markets across the world. The significant reduction in transaction volumes continued this year. Therefore, in arriving at their estimates of market values as at 31 December 2010, the valuers have used their market knowledge and professional judgement and have not only relied solely on historic transactional comparables. In these circumstances, there is a greater degree of uncertainty than which exists in a more active market in estimating the market values of investment property. The lack of liquidity in capital markets also means that, if it was intended to dispose of the property, it may be difficult to achieve a successful sale of the investment property in the short term.

Impairment of receivables
An estimate of the collectible amount of 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 past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Determining fair values of investments at fair value through profit or loss
For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the Group's accounting policies
The Group did not make any critical accounting judgements in 2010 or 2009.

5. Investment property

	2010 KD	2009 KD
Balance at 1 January	30,919,324	29,616,850
Additions	716,383	2,574,458
Capitalised finance costs	-	38,406
Change in fair value	478,801	(2,147,335)
Foreign currency translation differences	(458,625)	836,945
Balance at 31 December	31,655,883	30,919,324

Investment property represents land acquired through the Group's subsidiaries in the Kingdom of Bahrain.

Murabaha payable is secured on investment property to the value of KD 4,720,078 (2009: nil) (see note 11).

The Group's investment properties were revalued at 31 December 2010 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the investment properties valued.

Investment property with a carrying value of KD 27,329,276 was not in use as of 31 December 2010, as it was either held for capital appreciation or in the process of construction. The Group determined that the fair value of all of its investment property under construction at 31 December 2010 was reliably determinable on a continuing basis.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

6. Trade and other receivables

	2010 KD	2009 KD
Loans and receivables		
Accrued income	86,289	79,397
Prepaid expenses	44,048	18,297
	130,337	97,694

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 17.

7. Investments at fair value through profit or loss

	2010 KD	2009 KD
Held for trading		
Quoted equity securities	350,023	490,031
Designated upon initial recognition		
Unquoted funds	280,523	354,983
	630,546	845,014

A majority of the Group's equity investments classified as at fair value through profit or loss are listed on the Kuwait Stock Exchange. A three percent increase in stock prices at the reporting date would have increased profit or loss and equity by KD 18,916 (2009: an increase of KD 25,350); an equal change in the opposite direction would have decreased profit or loss and equity by KD 18,916 (2009: KD 25,350). The analysis is performed on the same basis for 2009.

The Group's exposure to currency risk related to investments at fair value through profit or loss is disclosed in note 17.

8. Cash and cash equivalents

	2010 KD	2009 KD
Islamic finance facilities	8,000,000	8,918,346
Cash on hand and at banks	685,339	883,536
	8,685,339	9,801,882

Islamic finance facilities carry effective average annual profit rate of 6.5% (2009: 7%).

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2010 KD	2009 KD
Islamic finance facilities with original maturities of less than three months	8,000,000	8,765,288
Cash on hand and at banks	685,339	883,536
	8,685,339	9,648,824

The Group's exposure to currency risk and a sensitivity analysis for financial assets are disclosed in note 17.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

9. Share capital

The Company's authorized, issued and paid up share capital amounted to KD 31,500,000 distributed over 315,000,000 shares of 100 fils each (31 December 2009: KD 31,500,000 distributed over 315,000,000 shares).

10. Statutory reserve

In accordance with the Kuwait Commercial Companies' Law of 1960, as amended, and the Company's articles of association, 10% of the profit for the year is required to be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when profit is not sufficient for the payment of such dividend.

11. Murabaha payable

Murabaha payable represents the value of commodities purchased on a deferred settlement basis and bear average profit rate of 9.5% per annum (2009: 9.5% per annum). The murabaha is payable on different dates ending 26 April 2013 and are secured over investment property with a carrying amount of KD 4,720,078 (2009: nil) (see note 5). Amounts payable within the next twelve months are shown as current liability.

The Group's exposure to currency and liquidity risks related to murabaha payable is disclosed in note 17.

12. Trade and other payables

	2010 KD	2009 KD
Trade payables	38,107	103,333
Payable to contractor	-	615,214
Retention	92,281	94,344
Accrued expenses	22,264	27,591
Due to KFAS and Zakat	2,205	-
	154,857	840,482

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 17.

13. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year, as follows:

	2010 KD	2009 KD
Profit/ (loss) for the year	84,851	(2,414,843)
Weighted average number of outstanding and paid shares	315,000,000	315,000,000
Earnings/ (losses) per share (fils)	0.27	(7.67)

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

14. Capital commitments

At 31 December 2010, the Group had commitment in respect of construction and development of property amounting to KD Nil (31 December 2009: KD 114,853), and operating lease rentals of KD Nil (31 December 2009: KD 444,252).

15. Related party transactions

Related parties comprise the Group's shareholders who have representation in the Board of Directors, Directors, key management personnel and their close family members. In the normal course of business and upon management approval, transactions have been carried out during the year ended 31 December 2010.

Transactions with key management personnel
Key management personnel receive compensation in the form of short-term employee benefits and post-employment benefits. Key management personnel received total compensation of KD 164,240 for the year ended 31 December 2010 (KD 185,469 for the year ended 31 December 2009).

Other related party transactions

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2010 KD	2009 KD	2010 KD	2009 KD
Islamic finance facility	-	-	8,000,000	8,000,000
Murabaha income/ accrued income	537,976	634,882	74,082	79,397

These transactions are subject to the approval of the shareholders at the annual general assembly meeting.

16. Financial risk management

Overview
The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and investment securities.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

Trade and other receivables and Islamic finance facilities

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in notes 6 and 8. There are no significant concentrations of credit risk within the Group.

Investments

With respect to credit risk arising from the Group's investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these investments. Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At present the Group does expect to pay all liabilities at their contractual maturity. In order to meet such cash commitments the Group expects the operating activity to generate sufficient cash inflows. In addition, the Group holds financial assets for which there is a liquid market and that are readily available to meet liquidity needs.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Bahraini Dinar (BHD).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level.

The Group currently does not use financial derivatives to manage its exposure to currency risk.

Other market price risk

Equity price risk arises from equity securities. The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis. To manage its price risk arising from investments in equity securities which are carried at fair value through profit or loss, the Group diversifies its portfolio. The group's investments in equity of other entities are included primarily in Kuwait Stock Exchange.

Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

17. Financial instruments

Credit risk
Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk for trade and other receivables and Islamic finance facilities at the reporting date by geographic region was:

	2010 KD	2009 KD
Domestic	8,113,212	8,480,338
Kingdom of Bahrain	17,125	535,702
	8,130,337	9,016,040

The aging of trade and other receivables and Islamic finance facilities at the reporting date was:

	2010 KD	2009 KD
Past due 0-30 days	2,130,337	3,016,040
Past due 31-120 days	6,000,000	6,000,000
	8,130,337	9,016,040

No provision was required in 2010 (2009: nil) for trade and other receivables and Islamic finance facilities.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Liquidity risk
The following are the expected maturities of financial liabilities at the reporting date.

	Carrying amount KD	One year or less KD	One to five years KD
31 December 2010			
Financial liabilities			
Murabaha payable	989,217	428,048	561,169
Trade and other payables	154,857	154,857	-
	1,144,074	582,905	561,169
31 December 2009			
Financial liabilities			
Murabaha payable	437,620	-	437,620
Trade and other payables	840,482	840,482	-
	1,278,102	840,482	437,620

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

Currency risk

Exposure to currency risk

The Group is exposed to currency risk on certain assets denominated in a currency other than Kuwaiti Dinar. The currency giving rise to this risk is primarily Bahraini Dinar (BHD). At the reporting date the Group's net long exposure in foreign currency was BHD 41,354,655 (2009: BHD 41,741,934).

Sensitivity analysis

A 10 percent strengthening of the KD against the BHD at 31 December would have increased (decreased) equity and profit or loss by KD 3,095,595 (2009: KD 3,119,947). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

A 10% weakening of the KD against the BHD at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

Fair values

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair value of financial assets and financial liabilities (trade and other receivables, Islamic finance facilities, murabaha payable and trade and other payables) at the reporting date are not materially different from their carrying values.

Fair value hierarchy

The next table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2010				
Investments at fair value through profit or loss	350,023	280,523	-	630,546
	350,023	280,523	-	630,546

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2009				
Investments at fair value through profit or loss	490,031	354,983	-	845,014
	490,031	354,983	-	845,014

During the year ended 31 December 2010, there have been no transfers between fair value levels.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

18. Operating Segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. For each of the strategic business units, the Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Real estate activities. Includes trading, development and management of real-estate properties inside and outside Kuwait.
Non-real estate activities. Includes investment in various Islamic financial instruments, mainly murabaha.

The operating segments derive their revenue primarily from return on real-estates and investment income. All of the Group's business activities and operating segments are reported within the above segments.

Financial information on reportable segments for the year ended 31 December 2010 is as follows:

	Real estate activities KD	Non-real estate activities KD	Total KD
Segment revenues	515,836	310,247	826,083
Segment expenses	(741,232)	-	(741,232)
Segment results	(225,396)	310,247	84,851
Segment assets	31,865,502	9,315,885	41,181,387
Segment liabilities	1,162,830	-	1,162,830
Capital expenditure	716,383	47,025	763,408

Financial information on reportable segments for the year ended 31 December 2009 is as follows:

	Real estate activities KD	Non-real estate activities KD	Total KD
Segment (losses) revenues	(1,655,567)	67,724	(1,587,843)
Segment expenses	(827,000)	-	(827,000)
Segment results	(2,482,567)	67,724	(2,414,843)
Segment assets	31,985,012	9,763,360	41,748,372
Segment liabilities	1,289,683	-	1,289,683
Capital expenditure	1,864,898	4,149	1,869,047

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of counterparties. Segment assets are based on the geographical location of the assets.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

Geographical information

	Revenues/ (losses) KD	Non-current assets KD
31 December 2010		
Inside Kuwait	401,033	13,860
Outside Kuwait	425,050	31,721,305
	826,083	31,735,165
31 December 2009		
Inside Kuwait	533,497	36,027
Outside Kuwait	(2,121,340)	30,967,755
	(1,587,843)	31,003,782

During 2010 and 2009, there were no transactions between the Group's reportable segments.

There were no changes in the reportable segments during the year. The accounting policies of the reportable segments are the same as described in note 3.

The Board assesses the performance of the operating segments based on a measure of segment profit. The profit or loss of the Group's reportable segments reported to the Board are measured in a manner consistent with that in the statement of comprehensive income. A reconciliation of segment result to net loss is therefore not presented separately.

The amounts provided to the Board in respect of total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and physical location of the assets. As all assets and liabilities have been allocated to the reportable segments, reconciliations of reportable segments' assets to total assets, and of reportable segments' liabilities to total liabilities, are not presented.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

19. Proposed dividends

On 3 March 2011, the Board of Directors proposed not to distribute cash dividends to the shareholders for the year ended 31 December 2010, subject to the approval of the shareholders' general assembly.

On their meeting dated 26 May 2010, the shareholders' general assembly decided not to distribute dividends for the year 2009 (2008: No dividends were distributed).

20. Comparative figures

Where necessary, certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassifications did not affect previously reported profit or loss, equity or opening balances of the earliest comparative period presented; accordingly a third statement of financial position is not presented.