

Banader Hotels Company BSC

Financial Statements

For The Year Ended 31 December 2007

Chairman's Report

To the Shareholders of Banader Hotels Company BSC

It is my pleasure to present to you the second annual report on your Company's activities which also contains the audited annual financial statements for the year ended 31 December 2007.

I am pleased to inform you that, during 2007, the Board of Directors of the Company undertook various activities relating to the construction of the proposed hotel in Manama.

Mohammed Salahuddin Contracting and Engineering Bureau (MSCEB) finalised the preparation of the design work which were discussed and consequently approved by the Board. Also the budget for the hotel project was presented to the Board by MSCEB which will be around 30 Million Bahrain Dinars. Additionally, the Company has signed a contract for the interior design and decoration work with Messrs Galal Mahmood, interior designers.

During 2007 we received bids for the piling and enabling work for the project from a number of contractors, and these bids were studied by both the project managers, Nassar Engineering Services and the Project Committee of the Company, and the choice was made, taking into consideration many factors such as experience, goodwill, cost and the period of work.

As for the main construction job of the hotel, MSCEB have been working closely with Board on this matter, and a list of main contractors for the building of the hotel have been presented to the Board recently in order to prepare a short list. The design engineers will soon receive bids from those chosen and we hope that we can start the work as soon as this is done.

In this regard, we wish to remind our shareholders that the hotel project will be constructed on a plot owned by the Company in central Manama over an area of 4302 square meters next to the Batelco building near Bab Al Bahrain.

We also wish to assure our shareholders that the Board of Directors is endeavoring to quickly commence the construction works so as to achieve quick returns for the shareholders in the shortest time possible.

Finally, we wish to extend our thanks and gratitude to all the authorities in general and particularly to the Central Bank of Bahrain, the Ministry of Industry and Commerce, the Bahrain Stock Exchange and the Ministry of Information for all the assistance and support given by them in order to execute this project, which will be a land mark in the commercial centre of the Capital.

We also thank all our shareholders for their continued support, patience and understanding, and we hope to be upto their expectations.

Abdulla Hassan Bu Hindi
Chairman
February 2008.

Banader Hotels Company BSC

Commercial registration no. 59045 obtained on 20 December 2005

Board of Directors

| | |
|---------------------------------|-----------------|
| Mr Abdulla Hassan Buhindi | - Chairman |
| Mr Murad Ali Murad | - Vice-Chairman |
| Mr Nasser Al Nuwais | - Director |
| Mr Yasin Al Onaizy | - Director |
| Mr Sami Jalal | - Director |
| Mr Mohammed Almoayyed | - Director |
| Mr Jehad Amin | - Director |
| Mr Jaffar Abdulwahab Al Mansoor | - Director |

Audit Committee

| | |
|---------------------------------|-----------------|
| Mr Jaffar Abdulwahab Al Mansoor | - Chairman |
| Mr Sami Jalal | - Vice-Chairman |
| Mr Mohammed Almoayyed | - Memeber |

Company Secretary Mr Abdullah Ahmed Abdulrahim

Registered office

Flat 13, 1st Floor, Entrance 4
Manama Centre
Government Avenue
PO Box 2472
Manama
Kingdom of Bahrain

Banker Bank of Bahrain and Kuwait

Auditors

BDO Jawad Habib
PO Box 787
5th Floor, UGB Tower
Diplomatic Area
Kingdom of Bahrain



BDO Jawad Habib
Public Accountants
Management Consultants
CR No. 10201

5th floor UGB Tower
PO Box 787 Manama
Kingdom of Bahrain
Telephone (973) 17530077
Facsimile (973) 17530088
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANADER HOTELS COMPANY BSC

We have audited the accompanying financial statements of Banader Hotels Company BSC ("the Company"), which comprise the balance sheet as at 31 December 2007, the statement of income, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company for the period ended 31 December 2006 were audited by another auditor whose report dated 27 February 2007 expressed an unqualified opinion on those statements.

Responsibility of the Directors for the financial statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

- 1) we have obtained all the information we considered necessary for the purpose of our audit;
- 2) the Company has maintained proper books of accounts and the financial statements are in agreement therewith; and
- (3) the financial information included in the Directors' report is consistent with the books of account of the Company.

In addition, we report that nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law, or of its Memorandum and Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2007.


BDO Jawad Habib


Manama, Kingdom of Bahrain
7 February 2008

Banader Hotels Company BSC
Balance sheet as at 31 December 2007
(Expressed in Bahrain Dinars)

| | <u>Notes</u> | <u>2007</u> | <u>2006</u> |
|-------------------------------------|--------------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 2 | <u>3,651,544</u> | <u>3,256,738</u> |
| Current assets | | | |
| Prepayments and other receivables | 3 | 198,240 | 41,237 |
| Cash and cash equivalents | 4 | <u>5,773,693</u> | <u>5,995,530</u> |
| | | <u>5,971,933</u> | <u>6,036,767</u> |
| Total assets | | <u>9,623,477</u> | <u>9,293,505</u> |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 6 | 7,500,000 | 7,500,000 |
| Share capital received in advance | 6 | 1,500,000 | 1,500,000 |
| Statutory reserve | 7 | 49,823 | 18,840 |
| Retained earnings | | <u>448,408</u> | <u>169,558</u> |
| | | <u>9,498,231</u> | <u>9,188,398</u> |
| Current liabilities | | | |
| Accruals and other payables | 5 | <u>125,246</u> | <u>105,107</u> |
| Total equity and liabilities | | <u>9,623,477</u> | <u>9,293,505</u> |

These financial statements were approved by the Board of Directors on 7 February 2008 and signed on its behalf by:


 Abdulla Hassan Buhindi
 Chairman


 Murad Ali Murad
 Vice-Chairman

The accounting policies on pages 6 to 8 and the notes on pages 9 to 16 form an integral part of these financial statements.


Banader Hotels Company BSC
Statement of income for the year ended 31 December 2007
(Expressed in Bahrain Dinars)

| | <u>Notes</u> | Year ended 31 December <u>2007</u> | Period from 20 December 2005 to 31 December <u>2006</u> |
|---------------------------------------------------------------------|--------------|------------------------------------------|------------------------------------------------------------------|
| Other income | 8 | <u>376,790</u> | <u>315,904</u> |
| Expenses | | | |
| Staff costs | | (16,938) | (12,853) |
| Share issue and set-up costs | | - | (85,907) |
| General and administrative expenses | | (46,451) | (26,349) |
| Depreciation | 2 | <u>(3,568)</u> | <u>(2,397)</u> |
| | | <u>(66,957)</u> | <u>(127,506)</u> |
| Net profit for the year transferred to retained earnings | | <u>309,833</u> | <u>188,398</u> |
| Earnings per share | 10 | <u>3.44 fils</u> | <u>2.09 fils</u> |

These financial statements were approved by the Board of Directors on 7 February 2008 and signed on its behalf by:



 Abdulla Hassan Buhindi
 Chairman



 Murad Ali Murad
 Vice-Chairman

The accounting policies on pages 6 to 8 and the notes on pages 9 to 16 form an integral part of these financial statements.

Banader Hotels Company BSC
Statement of changes in shareholders' equity for the year ended 31 December 2007
(Expressed in Bahrain Dinars)

| | Notes | Share capital | Share capital received in advance | Statutory reserve | Retained earnings | Total |
|---------------------------------------------|-------|------------------|-----------------------------------|-------------------|-------------------|------------------|
| Share capital issued | 6 | 7,500,000 | - | - | - | 7,500,000 |
| Share application money received in advance | 6 | - | 1,500,000 | - | - | 1,500,000 |
| Net profit for the period | | - | - | - | 188,398 | 188,398 |
| Transferred to statutory reserve | 7 | - | - | 18,840 | (18,840) | - |
| At 31 December 2006 | | <u>7,500,000</u> | <u>1,500,000</u> | <u>18,840</u> | <u>169,558</u> | <u>9,188,398</u> |
| At 1 January 2007 | 6 | 7,500,000 | 1,500,000 | 18,840 | 169,558 | 9,188,398 |
| Net profit for the year | | - | - | - | 309,833 | 309,833 |
| Transferred to statutory reserve | 7 | - | - | 30,983 | (30,983) | - |
| At 31 December 2007 | | <u>7,500,000</u> | <u>1,500,000</u> | <u>49,823</u> | <u>448,408</u> | <u>9,498,231</u> |

The accounting policies on pages 6 to 8 and the notes on pages 9 to 16 form an integral part of these financial statements.

Banader Hotels Company BSC
Statement of cash flows for the year ended 31 December 2007
(Expressed in Bahrain Dinars)

| | <u>Notes</u> | Year ended 31 December <u>2007</u> | Period from 20 December 2005 to 31 December <u>2006</u> |
|-----------------------------------------------------------------|--------------|------------------------------------------|------------------------------------------------------------------|
| Operating activities | | | |
| Net profit for the year/period | | 309,833 | 188,398 |
| Adjustments for: | | | |
| Depreciation | 2 | 3,568 | 2,397 |
| Bank interest income | 8 | (303,434) | (282,466) |
| Adjustment for reclassification of freehold land | | 9,573 | - |
| Changes in operating assets and liabilities: | | | |
| Prepayments and other receivables | | (157,003) | (41,237) |
| Accruals and other payables | | <u>20,139</u> | <u>105,107</u> |
| Net cash used in operating activities | | <u>(117,324)</u> | <u>(27,801)</u> |
| Investing activities | | | |
| Purchases of property, plant and equipment | | (208) | (3,075,565) |
| Expenditure incurred on capital work-in- progress | | (407,739) | (183,570) |
| Bank interest income received | 8 | <u>303,434</u> | <u>282,466</u> |
| Net cash used in investing activities | | <u>(104,513)</u> | <u>(2,976,669)</u> |
| Financing activities | | | |
| Proceeds from share capital issued | 6 | - | 7,500,000 |
| Share application money received in advance | 6 | - | <u>1,500,000</u> |
| Net cash provided by financing activities | | - | <u>9,000,000</u> |
| Net (decrease)/increase in cash and cash equivalents | | (221,837) | 5,995,530 |
| Cash and cash equivalents, beginning of the year/period | | <u>5,995,530</u> | - |
| Cash and cash equivalents, end of the year/period | 4 | <u>5,773,693</u> | <u>5,995,530</u> |

The accounting policies on pages 6 to 8 and the notes on pages 9 to 16 form an integral part of these financial statements.

Banader Hotels Company BSC

Significant accounting policies

A summary of the significant accounting policies adopted in the preparation of these financial statements is set out below:

1 Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards as promulgated by the International Accounting Standards Board and interpretations issued by the Financial Reporting Interpretations Committee and the requirements of the Bahrain Commercial Companies Law. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

Standards, amendments and interpretations effective in 2007

IFRS 7, 'Financial Instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of Financial Statements – Capital Disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to trade and other payables.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007, but are not relevant to the Company's operations:

- IFRS 4, 'Insurance Contracts';
- IFRIC 7, 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies'; and
- IFRIC 9, 'Re-assessment of Embedded Derivatives'.

2 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, except for freehold land which is not depreciated. Cost includes all costs directly attributed to bringing the asset to working condition for its intended use.

Depreciation is calculated to write-off the cost of property, plant and equipment, to their estimated residual values, on a straight-line basis over their expected useful lives as follows:

| | |
|------------------|---------|
| Office equipment | 5 years |
| Motor vehicles | 5 years |

Freehold land is not depreciated as it is deemed to have an infinite life.

Banader Hotels Company BSC
Significant accounting policies (continued)

2 Property, plant and equipment (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written-down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining net profit.

Repairs and renewals are charged to the statement of income when the expenditure is incurred.

3 Provisions

The Company recognises provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events, and a reasonable estimate of the obligation can be made.

4 Employee benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. The Company contributes to the pension scheme for Bahraini nationals administered by the General Organisation for Social Insurance in the Kingdom of Bahrain. This is a defined contribution pension plan and the Company's contributions are charged to the statement of income in the year to which they relate. In respect of this plan, the Company has a legal obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits.

The expatriate employees of the Company are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Company accrues for its liability in this respect on an annual basis.

5 Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

6 Bank interest income

Bank interest income includes interest on short-term deposits with banks which is accounted for on an accruals basis, unless collectability is in doubt.

Banader Hotels Company BSC
Significant accounting policies (continued)

7 Foreign currency transactions

Foreign currency transactions are accounted for at the rates of exchange prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation, at the year-end rates, of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income.

8 Cash and bank balances

Cash and cash equivalents comprise cash on hand, bank balances and bank fixed deposits with original maturities of three months or less.

