

THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT
CENTRAL DISTRICT S.A.L.

SEPARATE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2015

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AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
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YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the shareholders
The Lebanese Company for the Development
and Reconstruction of Beirut Central District S.A.L.
Beirut - Lebanon

We have audited the accompanying separate financial statements of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (Solidere), which comprise the statement of financial position as at December 31, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers 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 policies 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.

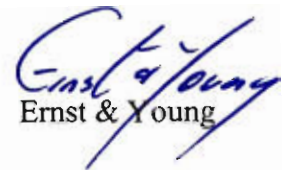
Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (Solidere) as of December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
May 4, 2016



Deloitte & Touche



Ernst & Young

**THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
STATEMENT OF FINANCIAL POSITION**

| <u>ASSETS</u> | <u>Notes</u> | <u>December 31,</u> | |
|--|--------------|-----------------------------|-----------------------------|
| | | <u>2015</u> US\$ | <u>2014</u> US\$ |
| Cash and bank balances | 5 | 126,637,698 | 147,205,887 |
| Prepayments and other debit balances | 6 | 52,918,998 | 48,432,480 |
| Accounts and notes receivable, net | 7 | 466,209,794 | 552,290,794 |
| Investment in asset-backed securities | 8 | 69,481,753 | 72,768,003 |
| Inventory of land and projects in progress | 9 | 1,134,114,848 | 1,128,277,351 |
| Investment properties, net | 10 | 593,436,775 | 578,860,903 |
| Investments in joint ventures, subsidiaries and associates | 11 | 287,409,159 | 283,639,206 |
| Fixed assets, net | 12 | <u>55,505,059</u> | <u>49,038,497</u> |
| Total Assets | | <u><u>2,785,714,084</u></u> | <u><u>2,860,513,121</u></u> |
| <u>LIABILITIES</u> | | | |
| Bank overdrafts and short term facilities | 13 | 556,035,429 | 546,577,000 |
| Accounts payable and other liabilities | 14 | 106,484,438 | 107,053,126 |
| Dividends payable | 15 | 61,245,107 | 63,681,032 |
| Deferred revenues and other credit balances | 16 | 98,728,003 | 65,666,386 |
| Term bank loans | 17 | <u>126,951,174</u> | <u>102,602,265</u> |
| Total Liabilities | | <u><u>949,444,151</u></u> | <u><u>885,579,809</u></u> |
| <u>EQUITY</u> | | | |
| Issued capital at par value US\$10 per share: | 18 | | |
| 100,000,000 class (A) shares | | 1,000,000,000 | 1,000,000,000 |
| 65,000,000 class (B) shares | | <u>650,000,000</u> | <u>650,000,000</u> |
| | | 1,650,000,000 | 1,650,000,000 |
| Legal reserve | 19 | 163,240,038 | 163,240,038 |
| Retained earnings | | 76,578,117 | 248,350,358 |
| Deficit on treasury shares' activity | 20 | (21,382,494) | (2,446,798) |
| Less: Treasury shares | 20 | <u>(32,165,728)</u> | <u>(84,210,286)</u> |
| Total Equity | | <u><u>1,836,269,933</u></u> | <u><u>1,974,933,312</u></u> |
| Total Liabilities and Equity | | <u><u>2,785,714,084</u></u> | <u><u>2,860,513,121</u></u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | <u>Notes</u> | <u>Year Ended</u> <u>December 31,</u> | |
|--|-------------------|--|----------------------|
| | | <u>2015</u> | <u>2014</u> |
| | | <u>US\$</u> | <u>US\$</u> |
| Revenues from land sales | | 26,801,762 | 169,473,806 |
| Revenues from rented properties | | 56,972,879 | 61,478,042 |
| Revenues from rendered services | 21 | <u>6,411,855</u> | <u>6,071,422</u> |
| Total revenues | | <u>90,186,496</u> | <u>237,023,270</u> |
| Cost of land sales | | (6,987,900) | (28,417,648) |
| Depreciation of and charges on rented properties | 22 | (25,698,051) | (25,491,359) |
| Cost of rendered services | 23 | (5,594,514) | (5,159,791) |
| Total cost of revenue | | <u>(38,280,465)</u> | <u>(59,068,798)</u> |
| Gain on sale and disposal of investment properties | 10 | <u>3,177,153</u> | <u>4,504,635</u> |
| Net revenues from operations | | 55,083,184 | 182,459,107 |
| General and administrative expenses | 24 | (30,924,569) | (31,149,449) |
| Depreciation of fixed assets | 12 | (3,665,448) | (3,625,562) |
| Provision for impairment | 6(c),7(d),7(e)&11 | (113,404,550) | (9,719,278) |
| Loss on rescheduled receivables | 7 | (2,553,157) | (5,925,711) |
| Write-off of receivables | 7 | (4,778,425) | (3,188,017) |
| Write-back of provision for end-of-service indemnity | 14(d) | - | 3,475,544 |
| Provision for impairment of other debit balances | 6 (d) | - | (2,100,000) |
| Provision for contingencies | 14(e) | (7,500,000) | (800,000) |
| Other expense | | (350,000) | (93,019) |
| Other income | 25 | 4,592,817 | 457,536 |
| Taxes, fees and stamps | 14 (c) | (521,696) | (577,126) |
| Interest income | 26 | 19,152,435 | 19,438,773 |
| Interest expense | 27 | (34,323,964) | (33,307,165) |
| Loss on exchange | | (986,624) | (1,122,630) |
| (Loss)/profit before tax | | (120,179,997) | 114,223,003 |
| Income tax benefit/(expense) | 14 (c) | <u>1,283,167</u> | <u>(17,319,627)</u> |
| (Loss)/profit for the year | | (118,896,830) | 96,903,376 |
| Other comprehensive income | | - | - |
| Total comprehensive (loss)/income for the year | | <u>(118,896,830)</u> | <u>96,903,376</u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
STATEMENT OF CHANGES IN EQUITY

| | Share Capital US\$ | Legal Reserve US\$ | Retained Earnings US\$ | Deficit on Treasury Shares' activity US\$ | Treasury Shares US\$ | Total US\$ |
|--|--------------------------|--------------------------|------------------------------|--|----------------------------|-----------------------|
| Balance at January 1, 2014 | 1,650,000,000 | 153,549,700 | 161,137,320 | (2,446,798) | (84,210,286) | 1,878,029,936 |
| Total comprehensive income for the year 2014 | - | - | 96,903,376 | - | - | 96,903,376 |
| Allocation to legal reserve from 2014 profit | - | <u>9,690,338</u> | <u>(9,690,338)</u> | - | - | - |
| Balance at December 31, 2014 | 1,650,000,000 | 163,240,038 | 248,350,358 | (2,446,798) | (84,210,286) | 1,974,933,312 |
| Distribution of dividends (Note 15 & 20) | - | - | (52,875,411) | (18,935,696) | 52,044,558 | (19,766,549) |
| Total comprehensive loss for the year 2015 | - | - | <u>(118,896,830)</u> | - | - | <u>(118,896,830)</u> |
| Balance at December 31, 2015 | <u>1,650,000,000</u> | <u>163,240,038</u> | <u>76,578,117</u> | <u>(21,382,494)</u> | <u>(32,165,728)</u> | <u>1,836,269,933</u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
STATEMENT OF CASH FLOWS**

| | Notes | Year Ended December 31, | |
|---|---------|-------------------------|----------------------|
| | | 2015 US\$ | 2014 US\$ |
| Cash flows from operating activities: | | | |
| Profit for the year before income tax | | (120,179,997) | 114,223,003 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | | |
| Depreciation | 28(a) | 16,556,578 | 15,107,881 |
| Gain on sale and disposal of investment properties | 10 | (3,177,153) | (4,504,635) |
| Gain on sale of fixed assets | 25 | - | (21,794) |
| Provision for end-of-service indemnity and other charges | 14(d) | 3,126,502 | 817,579 |
| Provision for impairment | 6,7&11 | 113,404,550 | 9,719,278 |
| Provision for contingencies | 14(e) | 7,500,000 | 800,000 |
| Write-back of provision for end-of-service indemnity | 14(d) | - | (3,475,544) |
| Provision for impairment of other debit balances | 6(d) | - | 2,100,000 |
| Loss on rescheduled receivables | 7 | 2,553,157 | 5,925,711 |
| Write-off of receivables | 7 | 4,778,425 | 3,188,017 |
| Interest income | 26 | (19,152,435) | (19,438,773) |
| Interest expense | 28(b) | 36,085,327 | 34,401,093 |
| Changes in working capital: | | | |
| Prepayments and other debit balances | 6&28(d) | 7,920,376 | 14,483,699 |
| Accounts and notes receivable | 7 | (35,461,554) | (123,820,895) |
| Inventory of land and projects in progress | 28(c) | (44,712,547) | (11,762,097) |
| Accounts payable and other liabilities | 14 | 5,228,811 | (13,668,413) |
| Deferred revenues and other credit balances | 28(d) | 33,061,617 | 7,029,854 |
| Interest received | | 13,729,728 | 10,333,906 |
| Taxes paid | | (17,319,627) | (7,348,801) |
| Net cash provided by operating activities | | <u>3,941,758</u> | <u>34,089,069</u> |
| Cash flows from investing activities: | | | |
| Short term deposits | | - | 2,000,000 |
| Acquisition of fixed assets | 12&28 | (860,424) | (1,008,630) |
| Acquisition of investment properties | 10&28 | (391,876) | (1,507,149) |
| Proceeds from sale of investment properties | 10 | 5,590,532 | 6,416,041 |
| Proceeds from sale of fixed assets | 12 | 114,961 | 47,500 |
| Investments in joint ventures, subsidiaries and associates | 11 | (9,470,975) | (5,089,245) |
| Investment in asset-backed securities | | <u>3,286,250</u> | <u>7,833,123</u> |
| Net cash (used in)/provided by investing activities | | <u>(1,731,532)</u> | <u>8,691,640</u> |
| Cash flows from financing activities: | | | |
| Term bank loans | 17 | 24,348,909 | (20,651,971) |
| Dividends paid | 15 | (22,202,474) | (2,804,343) |
| Interest paid | | (34,383,279) | (31,361,471) |
| Bank short term facilities | 13 | (1,254) | (12,020,416) |
| Net cash used in financing activities | | <u>(32,238,098)</u> | <u>(66,838,201)</u> |
| Net change in cash and cash equivalents | 28(e) | (30,027,872) | (24,057,492) |
| Cash and cash equivalents--Beginning of the year | | <u>(88,372,765)</u> | <u>(64,315,273)</u> |
| Cash and cash equivalents--End of the year | 28(e) | <u>(118,400,637)</u> | <u>(88,372,765)</u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

1. FORMATION AND OBJECTIVE OF THE COMPANY

The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (SOLIDERE) (the "Company") was established as a Lebanese joint stock company on May 5, 1994 based on Law No. 117/91, and was registered on May 10, 1994 under Commercial Registration No. 67000. The articles of incorporation of the Company were approved by Decree No. 2537 dated July 22, 1992.

The objective of the Company is to acquire real estate properties, to finance and ensure the execution of all infrastructure works in the Beirut Central District (BCD) area, to prepare and reconstruct the BCD area, to reconstruct or restore the existing buildings, to erect buildings and sell, lease or exploit such buildings and lots and to develop the landfill on the seaside.

The duration of the Company is 25 years, beginning from the date of establishment. An extraordinary general assembly dated June 29, 1998 resolved to amend the duration of the Company to be 75 years beginning from the date of establishment. During 2005, the Council of Ministers approved the extension of the duration of the Company for 10 years.

The Company, based on law No.117/91 mentioned above, was exempt from income tax for a period of ten years beginning on the date of formation. As such beginning May 10, 2004, the Company became subject to income tax.

An extraordinary general assembly dated November 13, 2006 resolved to amend the objective of the Company to include providing services and consultancy in real estate development for projects outside the BCD area and all over the world.

During 2007, the Company granted Solidere International Limited (an associate) the right to use the "Solidere" brand in the execution of real estate projects outside the Beirut Central District area of Lebanon.

The Company's shares are listed on the Beirut stock exchange and the Global Depository Receipts (GDR) are listed on the London stock exchange (International Trading List).

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 New and amended standards and interpretations

The accounting policies adopted in the preparation of the separate financial statements are consistent with those followed in the preparation of the Company's annual separate financial statements for the year ended 31 December 2014 except for the adoption of amended standards and interpretations effective as of 1 January 2015, noted below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

Annual Improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Company has applied these amendments for the first time in these separate financial statements. They include:

IFRS 2 *Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9.

IFRS 8 *Operating Segments*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

2.2 New and amended standards and interpretations

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 *Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Company has applied these amendments for the first time in these separate financial statements. They include:

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 *Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39 or IFRS 9.

IAS 40 *Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

The adoption of the above amendments (where applicable) did not have a significant impact on the Company's financial position or performance.

2.3 New and Revised IFRS in Issue But Not Yet Effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

| <u>New and revised IFRSs</u> | <u>Effective for annual periods beginning on or after</u> |
|--|---|
| IFRS 14 Regulatory Deferral Accounts | January 1, 2016 January 1, 2016 |
| Amendments to IAS 1 <i>Presentation of Financial Statements</i> relating to Disclosure initiative | January 1, 2016 |
| Amendments to IFRS 11 <i>Joint arrangements</i> relating to accounting for acquisitions of interests in joint operations | January 1, 2016 |
| Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> relating to clarification of acceptable methods of depreciation and amortization | January 1, 2016 |
| Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture</i> relating to bearer plants | January 1, 2016 |
| Amendments to IAS 27 <i>Separate Financial Statements</i> relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements | January 1, 2016 |
| Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 | January 1, 2016 |
| IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014) | January 1, 2018 |
| <p>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.</p> | |

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9

When IFRS 9 is first applied

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9

When IFRS 9 is first applied

IFRS 15 *Revenue from Contracts with Customers*

January 1, 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 16 *Leases*

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

January 1, 2019

Except for IFRS 9 and IFRS 15, the adoption of the above amendments (where applicable) will not have a significant impact on the Company's financial position or performance. The effect of the adoption of IFRS 9 and IFRS 15 cannot be determined at present.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements are presented in U.S. Dollars.

These financial statements relate to Solidere and do not include the Company's share in the results and equity of the joint ventures, subsidiaries and associates.

Separate financial statements are prepared for statutory reasons. Consolidated financial statements are prepared and are available at the Company's headquarters.

The financial statements are prepared under the historical cost convention.

The significant accounting policies are set out below:

A. Basis of Presentation:

In view of the long term nature and particulars of the Company's operations, the financial statements are presented on the basis that the operations have realization and liquidation periods spread over the duration of the Company and which are subject to market conditions and other factors commonly associated with real estate development projects; as such, the statement of financial position is shown as "unclassified" without distinction between current and long-term components.

B. Foreign Currencies:

The functional and presentation currency is the U.S. Dollars, in accordance with the applicable law, which reflects the economic substance of the underlying events and circumstances of the Company. Transactions denominated in other currencies are translated into U.S. Dollars at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities stated in currencies other than the U.S. Dollar are re-translated at the rates of exchange prevailing at the end of the year. The resulting exchange gain or loss is reflected in the statement of profit or loss and other comprehensive income. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

C. Financial Instruments:

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

When a financial instrument gives rise to a contractual obligation on the part of the Company to deliver cash or another financial asset or to exchange another financial instrument under conditions that are potentially unfavorable, it is classified as a financial liability. The instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met:

- (a) The instrument includes no contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.
- (b) If the instrument will or may be settled in the Company's own equity instruments; it is a non-derivative that includes no contractual obligation for the Company to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and Receivables:

Loans and receivables which include investment in asset-backed securities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the loans and receivables are derecognized or impaired as well as through the amortization process.

Held-to-Maturity Investment Securities:

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to maturity investments are carried at amortized cost.

Impairment and Uncollectibility of Financial Assets:

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset or group of assets and any impairment loss are determined based on the net present value of expected future cash flows discounted at original effective interest rates.. Impairment losses are recognized in the statement of profit or loss and other comprehensive income.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Fair Value Measurement:

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

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

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

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

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

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

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

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

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

Derecognition:

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flow in full without material delay to a third party under a ‘pass through’ arrangement, and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is derecognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities:

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amount is recognized in profit or loss.

Offsetting:

Financial assets and financial liabilities are only offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

D. Inventory of Land and Projects in Progress:

Inventory of land and projects in progress are stated at the lower of cost and estimated net realizable value. Costs include appraisal values of real estate plots constituting the contributions in kind to capital (A shares), in addition to capitalized costs. Capitalized costs comprise the following:

- Project direct costs and overheads related to the properties development, construction and project management as a whole, as well as acquisition, zoning, and eviction costs.
- Indirect costs, such as overheads, which were partially allocated to inventory of land and projects in progress.
- Borrowing cost as defined in Note 3(N).

E. Investment Properties:

Investment properties which represent properties held to earn rent and/or for capital appreciation are measured initially at cost and subsequent to initial recognition are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties, excluding the cost of land, based on the following annual rates:

| | |
|---|--------|
| Buildings | 2% |
| Furniture, fixtures, equipment and other assets | 4%-15% |

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of investment properties. All other expenditure is recognized in the statement of profit or loss and other comprehensive income as the expense is incurred.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

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

F. Investments in Subsidiaries:

The Company's investments in subsidiaries are accounted for under the cost method of accounting. Subsidiaries are entities that the Company controls. The Company controls an investee if and only if the Company has:

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

G. Investments in Associates and Joint ventures:

The Company's investments in associates and joint ventures are accounted for under the equity method of accounting in the consolidated financial statements and at cost in the separate financial statements.

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

H. Fixed Assets:

Fixed assets are stated at cost net of accumulated depreciation and any impairment in value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual rates:

| | |
|------------------------|---------|
| Buildings | 2% |
| Marina | 2% |
| Furniture and fixtures | 9% |
| Freehold improvements | 9% |
| Machines and equipment | 15%-20% |

Expenditure incurred to replace a component of an item of fixed assets that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of fixed assets. All other expenditure is recognized in the statement of profit or loss and other comprehensive income as the expense is incurred.

I. Impairment of Tangible Assets:

At each statement of financial position date, the carrying amounts of tangible assets (investment properties, fixed assets and inventory of land and projects in progress) are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the balance sheet date less cost to sell, if any.
- Value in use assessed as the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only for applicable assets with cash generation units, as applicable.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. The impairment loss is recognized in the statement of profit or loss and other comprehensive income.

J. Treasury Shares:

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Gains on sale of treasury shares are recorded under a reserve account in equity. Losses in excess of previously recognized gains are charged to retained earnings.

K. Revenue Recognition:

Revenue on land and real estate sales transactions is recognized on the basis of the full accrual method as and when the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial (in principle over 25% of sales price) and continuing investments are adequate to demonstrate a commitment to pay for the property;
- The Company's receivable is not subject to future subordination; and
- The Company has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and the Company does not have a substantial continuing involvement with the property.

If any of the above conditions is not met, the initial payments received from buyers are recorded under deferred revenues and other credit balances. Amounts are released to revenue as and when the above conditions are fulfilled.

Financial assets (including treasury shares) received in return for the sale of land and real estate are valued at fair market value.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Interest income is recognized as interest accrues using the effective interest method, by reference to the principal outstanding and the applicable interest rate.

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the date of the statement of financial position.

Revenue from broadband network services is recognized when the service is rendered.

L. Cost of Land Sales:

Cost of properties sold is determined on the basis of the built up area (BUA) - permitted right to build in square meters - on the sold plots based on the terms of the sales agreements. The cost of one square meter of BUA is calculated by dividing, total estimated cost of the land development project over total available BUA after deducting of the BUA relating to recuperated properties and those relating to the religious and public administrations.

M. Cash and Cash Equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts and short-term facilities with an original maturity of three months or less.

N. Borrowing Costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets and inventory of land and projects in progress, which are assets that necessarily take a substantial period of time to be ready for their intended use, are added to the cost of those assets, until such time that the assets are substantially ready for their intended use.

All other borrowing costs are reflected in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

O. Bank Borrowings:

Interest-bearing bank loans and overdrafts are initially measured at the fair value of the consideration received, less directly attributable costs and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized in profit or loss over the term of the borrowings through the amortization process, using the effective interest rate method.

P. Trade and other payables:

Trade and other payables are initially measured at fair value. Due to their short-term nature, the carrying amount of trade and other payables approximates their fair values as of the date of the statement of financial position. Average maturity dates of trade payables range between 30-90 days. Short duration payables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

Q. Taxation:

Current Tax

Income tax is determined and provided for in accordance with the Lebanese income tax law. Income tax expense is calculated based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in future years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates enacted at the balance sheet date. Provision for income tax is reflected in the statement of financial position net of taxes previously settled in the form of withholding tax. Taxable losses are allowed to be carried forward for the following three consecutive years.

Rental income is subject to the built property tax in accordance with the Lebanese tax law.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted at the date of the statement of financial position.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Taxes payable on unrealized revenues are deferred until the revenue is realized.

Current tax and deferred tax relating to items that are credited or charged directly to other comprehensive income are recognized directly in other comprehensive income.

R. Provisions:

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

S. Employees' End-of-Service Indemnities:

The Company provides end-of-service indemnity to its employees. The entitlement to these benefits is based on the employees' final salary and length of service, subject to the completion of a minimum service period and for those employees wishing to settle their accounts. The expected costs of these benefits are accrued over the period of employment.

T. Dividends on shares

Dividends on shares are recognized as a liability and deducted from equity when they are approved by the general assembly of the Company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4. CRITICAL ACCOUNTING JUDGMENTS AND USE OF ESTIMATES

In the application of the accounting policies described in Note 3 above, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant estimate made by the Company is the determination of the aggregate cost of the Beirut Central District Project and the fair value of the investment properties.

GOING CONCERN

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

IMPAIRMENT OF ACCOUNTS AND NOTES RECEIVABLE AND INVESTMENT IN ASSETS-BACKED SECURITIES

An estimate of the collectible amount of accounts and notes receivable and investment in asset-backed securities 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 is set up according to the length of time past due, based on historical recovery rates.

Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognized in the statement of profit or loss and other comprehensive income.

IMPAIRMENT OF INVESTMENT IN JOINT VENTURES, SUBSIDIARIES AND ASSOCIATES

The Company assesses at each reporting date whether there is indication that an investment may be impaired. If any indication exists the Company estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the statement of profit or loss and other comprehensive income.

ESTIMATION OF NET REALIZABLE VALUE FOR INVENTORY OF PROPERTY AND INVESTMENT PROPERTIES

Inventory property is stated at the lower of cost and net realizable value (NRV). NRV for completed inventory property is assessed by reference to market conditions and prices existing at the reporting date and is determined by the Company, based on comparable transactions identified by the Company for properties in the same geographical market serving the same real estate segment. NRV in respect of inventory of property under construction and investment properties is assessed with reference to market prices at reporting date for similar completed property, less estimated cost to complete construction, and an estimate of the time value of money to the date of completion.

5. CASH AND BANK BALANCES

| | <u>December 31,</u> | |
|-------------------------|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Cash on hand | 41,597 | 40,252 |
| Checks under collection | 6,186,683 | 26,844,731 |
| Current accounts | 5,936,070 | 9,943,130 |
| Short term deposits | <u>114,473,348</u> | <u>110,377,774</u> |
| | <u>126,637,698</u> | <u>147,205,887</u> |

Short term deposits mature between January and March 2016 (December 31, 2014: Short term deposits mature between January and March 2015). The average yield on the term deposits for the year ended December 31, 2015 was approximately 3.8% (4.01% for the year ended December 31, 2014).

6. PREPAYMENTS AND OTHER DEBIT BALANCES

| | <u>December 31,</u> | |
|--|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Advance payments to contractors | 1,662,211 | 3,783,484 |
| Advances to employees | 2,661,260 | 2,768,686 |
| Accrued interest income (a) | 24,367,905 | 18,945,200 |
| Prepaid expenses | 7,225,640 | 7,003,038 |
| Deferred tax assets (b) | 3,112,500 | 1,612,500 |
| Due from joint ventures, subsidiaries, associates and related parties (c) | 5,866,517 | 8,837,762 |
| Other debit balances, (net) (d) | <u>8,022,965</u> | <u>5,481,810</u> |
| | <u>52,918,998</u> | <u>48,432,480</u> |

(a) Accrued interest income consists of the following:

| | <u>December 31,</u> | |
|--|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Interest on bank deposits and asset-backed securities (Note 8) | 2,415,260 | 1,181,373 |
| Interest on notes and accounts receivable | 7,098,046 | 6,140,847 |
| Interest on long term loan to a joint venture (Note 11(a)) | <u>14,854,599</u> | <u>11,622,980</u> |
| | <u>24,367,905</u> | <u>18,945,200</u> |

(b) Deferred tax assets consists of the following:

| | <u>December 31,</u> | |
|--|---------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Deferred tax asset on unrealized profits from sales to a joint venture (Note 11 (a)) | 1,612,500 | 1,612,500 |
| Deferred tax asset on carry forward taxable losses (Note 14 (c)) | <u>1,500,000</u> | <u>-</u> |
| | <u>3,112,500</u> | <u>1,612,500</u> |

(c) Due from joint ventures, subsidiaries, associates and related parties consist of the following:

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Solidere International Limited (Associate) | 856,558 | 662,147 |
| Solidere Management Services S.A.L. (Subsidiary) | 1,765,840 | 1,854,011 |
| Solidere Management Services S.A.L. (Offshore) (Subsidiary) | 5,040,969 | 3,585,969 |
| Solidere International Holdings S.A.L (Holding) (Subsidiary) | 8,629 | 223,429 |
| City Makers S.A.R.L. (Related party) | 64,640 | 66,481 |
| Beirut Water Front Development S.A.L. (Joint venture) | 107,704 | - |
| Beirut Real Estate Management and Services S.A.L. (Joint Venture) | 3,394 | 3,394 |
| BCD Cinemas S.A.L. (Associate) | 3,021,568 | 3,942,331 |
| Less: Provision for impairment | <u>(5,002,785)</u> | <u>(1,500,000)</u> |
| | <u>5,866,517</u> | <u>8,837,762</u> |

The above balances are interest free and are of a current nature.

The movement of provision for impairment is as follows:

| | <u>2015</u> | <u>2014</u> |
|-----------------------|------------------|------------------|
| | US\$ | US\$ |
| Beginning of the year | 1,500,000 | - |
| Additions | <u>3,502,785</u> | <u>1,500,000</u> |
| End of the year | <u>5,002,785</u> | <u>1,500,000</u> |

(d) Other debit balances are stated net of provisions in the amount of US\$500,000 as at December 31, 2015 (December 31, 2014: provisions in the amount of US\$2,100,000). The movement of the provisions was as follows:

| | <u>2015</u> US\$ | <u>2014</u> US\$ |
|--------------------------------|---------------------|---------------------|
| Balance, beginning of the year | 2,100,000 | 2,000,000 |
| Additions | - | 2,100,000 |
| Write-offs | (1,600,000) | (2,000,000) |
| Balance, end of the year | <u>500,000</u> | <u>2,100,000</u> |

7. ACCOUNTS AND NOTES RECEIVABLE, NET

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2015</u> US\$ | <u>2014</u> US\$ |
| Notes receivable (a) | 604,952,289 | 594,143,809 |
| Accounts receivable (b) | 5,492,380 | 8,073,367 |
| Reserve account receivable from BCD 1 Fund (Note 8) | 7,350,579 | 7,350,579 |
| Deferred charges from securitization of notes (Note 8) | 4,928,469 | 4,928,469 |
| Receivable from tenants (c) | 52,717,443 | 48,552,552 |
| Less: Unearned interest (a) | (97,571,393) | (103,298,752) |
| Less: Provision for problematic receivables (d) | (100,659,973) | (7,459,230) |
| Less: Provision for collectively assessed receivables (e) | (11,000,000) | - |
| | <u>466,209,794</u> | <u>552,290,794</u> |

The Company's credit risk exposure in notes and accounts receivable is spread over 27 counter-parties; 12 customers constitute 91% of the total exposure and 15 customers constitute the remaining 8% as of December 31, 2015 (as of December 31, 2014, 21 counter-parties; 11 customers constitute 91% of the total exposure and 10 customers constitute the remaining 9%).

The Company's credit exposure in receivables from tenants is spread over a large number of counter-parties; 6 tenants constitute 50% of the total exposure as of December 31, 2015 (11 tenants constitute 50% of the total exposure as of December 31, 2014).

The average yield on accounts and notes receivable is mainly dependent on the Libor rate.

- (a) Notes receivable, which resulted mainly from sales carry the following maturities and distributed as follows:

| | <u>December 31,</u> | |
|--------------------------|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Doubtful balances | 91,456,594 | 9,178,529 |
| Overdue but not impaired | 24,141,422 | 9,015,626 |
| 2015 | - | 73,460,736 |
| 2016 | 98,416,370 | 96,021,020 |
| 2017 and above | <u>390,937,903</u> | <u>406,467,898</u> |
| | <u>604,952,289</u> | <u>594,143,809</u> |

During 2015, the Company rescheduled the payments of four customers whose aggregate notes receivable balance amounted to US\$224,563,175 (December 31, 2014: two customers amounting to US\$120,263,000) resulting in a loss of US\$2,553,157 (2014: loss amounting to US\$5,925,711) recorded in the statement of profit or loss and other comprehensive income.

- (b) Accounts receivable carry the following maturities:

| | <u>December 31,</u> | |
|--------------------------|---------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Overdue but not impaired | 2,672,607 | 2,724,269 |
| 2015 | - | 2,709,306 |
| 2016 | <u>2,819,773</u> | <u>2,639,792</u> |
| | <u>5,492,380</u> | <u>8,073,367</u> |

- (c) On January 5, 2015, the final result of the arbitration between the Company and the Lebanese Ministry of Foreign Affairs and Immigrants regarding the rent of property 1134 Zokak Blat for the use of the Economic and Social Commission for Western Asia ESCWA was concluded. As a result, the Company was awarded an indemnity in the amount of US\$3,278,868 for the period from August 31, 2008 to August 31, 2013 in addition to a monthly indemnity in the amount of US\$703,292 for the entire period of usage of the plot by the Ministry of Foreign Affairs and Immigrants until final evacuation as per the final arbitration decision.

The awarded indemnity amounting to US\$3,278,868 was recorded under revenues from rented properties in the statement of profit or loss and other comprehensive income in addition to rental revenues in the amount of US\$8,637,723 for the year 2014 against receivable from the Ministry of Foreign Affairs and Immigrants outstanding as at December 31, 2014.

During 2015, the Company wrote-off doubtful receivables from tenants in the amount of US\$4,778,425 recorded under “Write-off of receivables” in the statement of profit or loss and other comprehensive income (US\$3,188,017 during the year 2014).

(d) The movement of the provision for problematic receivables is as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|--------------------|------------------|
| | US\$ | US\$ |
| Balance at the beginning of the year | 7,459,230 | 16,042,021 |
| Additions | 93,652,063 | - |
| Write-back | (451,320) | - |
| Write-off | - | (8,582,791) |
| Balance at the end of the year | <u>100,659,973</u> | <u>7,459,230</u> |

(e) During 2015, the Company setup provision in the amount of US\$11,000,000 against collectively assessed receivables.

8. INVESTMENT IN ASSET-BACKED SECURITIES

During 2013, the Company signed an agreement with a local financial institution to securitize notes receivable with an aggregate nominal value of US\$185million relating to 4 customers creating Beirut Central District SIF 1 Fund (the BCD 1 Fund). As a result, the Company collected an amount of US\$93,821,227, net of reserve account and transaction costs.

The Company subscribed to the following notes issued by the BCD 1 Fund:

| <u>Class of Notes</u> | <u>Total Issuance</u> | <u>Subscription Amount</u> | <u>Carrying Amount</u> | | <u>Interest Rate</u> |
|------------------------|-----------------------|----------------------------|------------------------|-------------------|----------------------|
| | | | <u>December 31,</u> | | |
| | | | <u>2015</u> | <u>2014</u> | |
| | US\$ | US\$ | US\$ | US\$ | % |
| Loans and receivables: | | | | | |
| Class A | 130,000,000 | 28,000,000 | 14,321,303 | 17,607,553 | 5.5 |
| Class B | <u>45,000,000</u> | <u>45,000,000</u> | <u>45,000,000</u> | <u>45,000,000</u> | - |
| | <u>175,000,000</u> | <u>73,000,000</u> | <u>59,321,303</u> | <u>62,607,553</u> | |
| Held-to-Maturity: | | | | | |
| Class C | <u>10,160,450</u> | <u>10,160,450</u> | <u>10,160,450</u> | <u>10,160,450</u> | - |
| | <u>10,160,450</u> | <u>10,160,450</u> | <u>10,160,450</u> | <u>10,160,450</u> | |
| | <u>185,160,450</u> | <u>83,160,450</u> | <u>69,481,753</u> | <u>72,768,003</u> | |

Class A Notes are redeemable on a semi-annual basis. Class B Notes are also redeemable on a semi-annual basis provided the redeemable portion of Class A Notes is settled and funds are available. Class A and Class B Notes are classified as “loans and receivables”. Class B Notes are subordinated to Class A Notes. Class C Notes are subordinated to Class A and Class B Notes and will be repaid by the BCD 1 Fund solely if excess funds are available from collection of assets. Class C Notes are classified as held-to-maturity.

Interest on Class A and Class B Notes are payable semi-annually starting July 17, 2013 and July 17, 2014, respectively. Interest on Class B Notes is non-cumulative and is paid solely from available funds after payment of the BCD 1 Fund's dues for the related periods. Effective end of the year 2014, interest on Class A Notes became payable on a monthly basis.

Interest income on Class A Notes for the year 2015 amounted to US\$786,513 (US\$1,029,001 for the year 2014) and is recorded under "Interest income" in the consolidated statement of profit or loss and other comprehensive income (Note 26). Furthermore, the Company accrued for an amount of US\$1,204,092 representing its share in additional income allocated by the BCD Fund 1 to Class A Noteholders based on the approval of the Noteholders Assembly held on November 30, 2015, recorded under "Interest income" in the consolidated statement of profit or loss and other comprehensive income (Note 26).

During 2014, the Company derecognized the interest accrued during 2013 on Class B Notes in the amount of US\$1,024,215 as it is considered uncollectible (Note 26).

The Company placed a reserve account in the amount of US\$6,650,000, as stipulated by the BCD 1 Fund's regulations, to cover any shortfall in payments of principal and interest of the asset-backed securities issued by the BCD 1 Fund and to cover the senior expenses of the BCD 1 Fund. According to the BCD 1 Fund regulations, the reserve account balance should be maintained at US\$6,650,000. During 2014, an amount of US\$2,081,476 was used to cover the shortfall in payments. The decrease in the aggregate of US\$4,928,469 up to December 31, 2015 in the reserve account was recorded under "Deferred charges from securitization of notes" under "Accounts and notes receivables, net" and will be recovered from any subsequent distributions made by the BCD 1 Fund (Note 7).

The movement of the reserve account receivable from BCD 1 Fund presented under accounts receivable (Note 7), is as follows:

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| | US\$ | US\$ |
| Balance at the beginning of the year | 7,350,579 | 3,803,007 |
| Additions | - | 5,629,048 |
| To cover shortfall in payments of principal and interest | - | (2,081,476) |
| Balance at the end of the year | <u>7,350,579</u> | <u>7,350,579</u> |

9. INVENTORY OF LAND AND PROJECTS IN PROGRESS

| | <u>December 31,</u> | |
|---|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Land and land development works, net (a) | 1,015,465,434 | 989,846,476 |
| Real estate development projects, net (b) | <u>118,649,414</u> | <u>138,430,875</u> |
| | <u>1,134,114,848</u> | <u>1,128,277,351</u> |

- (a) Land and land development works include the following cost items:

| | December 31, | |
|--|----------------------|----------------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Acquired properties (a.1) | 970,823,554 | 970,823,554 |
| Pre-acquisition costs (a.2) | 9,412,802 | 9,412,802 |
| Infrastructure costs (a.3) | 850,798,097 | 823,244,074 |
| Eviction costs (a.4) | 260,351,968 | 260,351,968 |
| Capitalized costs (a.5) | <u>94,631,155</u> | <u>89,103,523</u> |
| Cumulative costs | 2,186,017,576 | 2,152,935,921 |
| <u>Less:</u> Cost of land sold, net | (1,010,618,148) | (1,004,230,247) |
| <u>Less:</u> Cost of land transferred to real estate development projects (Note 9 (b)) | (153,580,873) | (152,506,077) |
| <u>Less:</u> Cost of infrastructure transferred to real estate development projects | (<u>6,353,121</u>) | (<u>6,353,121</u>) |
| | <u>1,015,465,434</u> | <u>989,846,476</u> |

- (a.1) Acquired properties consist mainly of the aggregate initial appraised value attributed to the plots included in the BCD area of US\$1,170,001,290 net of the recuperated properties. The aggregate appraised value is determined in accordance with Decree No. 2236 (dated February 19, 1992 based on the decision of the Higher Appraisal Committee, which was established in accordance with Law No. 117/91). Acquired properties include the value of purchased and exchanged properties as well.

Law No. 117/91 stated the requirements for property recuperation and exemption. In this respect properties appraised at US\$255million were recuperated by original owners and properties appraised at US\$133million were not claimed for recuperation.

- (a.2) Pre-acquisition costs include technical and master plan studies incurred during the set up period of the Company.
- (a.3) Infrastructure costs consists of the following:

| | December 31, | |
|---|---------------------|--------------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Sea front defense | 297,471,384 | 297,385,138 |
| Work executed in the traditional BCD area | 197,515,108 | 177,555,153 |
| Land reclamation and treatment | 103,231,290 | 103,056,266 |
| Electricity power station | 42,836,634 | 42,809,057 |
| Borrowing costs (Note 27) | 45,756,392 | 44,729,566 |
| Other costs | <u>163,987,289</u> | <u>157,708,894</u> |
| | <u>850,798,097</u> | <u>823,244,074</u> |

(a.4) Eviction costs represent the costs of relocating previous settlers out of the BCD area which were mainly paid through the Central Fund for the Displaced (a public authority). This caption is stated net of US\$22.2million as of December 31, 2015 (US\$22.2million as of December 31, 2014) representing a 10% charge on recuperated properties appraised values collected from original owners other than religious and governmental recuperated properties.

(a.5) Capitalized costs represent allocation of direct overheads. Costs capitalized before reallocation during the year ended December 31, 2015 amounted to US\$8.3million (US\$9.9million during the year ended December 31, 2014) (Note 24).

(b) Real estate development projects include the following:

| | <u>December 31,</u> | |
|---|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Construction and rehabilitation of buildings | 762,552,783 | 744,533,989 |
| Cost of land (Note 9 (a)) | <u>153,580,873</u> | <u>152,506,077</u> |
| Cumulative costs | 916,133,656 | 897,040,066 |
| <u>Less:</u> Cost transferred to investment properties, net | (723,504,422) | (684,785,918) |
| Cost transferred to fixed assets (Note 12) | (29,815,565) | (29,659,018) |
| Cost of real estate sold | (44,164,255) | (44,164,255) |
| | <u>118,649,414</u> | <u>138,430,875</u> |

During 2015, the Company transferred an aggregate amount of US\$38,718,504 (US\$26,067,136 during 2014) to investment properties representing cost of land and buildings of various completed projects (Note 10).

During 2015, the Company allocated interest expense to real estate development projects in the amount of US\$734,537 (US\$865,919 during 2014) (Note 27).

10. INVESTMENT PROPERTIES, NET

| | Balance as at December 31, 2014 | Additions | Transfers from/to fixed assets | Transfers from/to projects | Disposals and Sales | Balance as at December 31, 2015 |
|----------------------------------|---------------------------------------|-------------------|--------------------------------------|-------------------------------|------------------------|---------------------------------------|
| | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| Cost: | | | | | | |
| Land | 115,201,952 | - | - | 1,074,796 | (552,186) | 115,724,562 |
| Buildings | 497,868,486 | 107,896 | (9,924,472) | 37,643,708 | (2,166,223) | 523,529,395 |
| Other assets | 36,588,661 | 283,980 | (487,924) | - | - | 36,384,717 |
| | <u>649,659,099</u> | <u>391,876</u> | <u>(10,412,396)</u> | <u>38,718,504</u> | <u>(2,718,409)</u> | <u>675,638,674</u> |
| Accumulated Depreciation: | | | | | | |
| Buildings | 57,912,702 | 10,541,905 | (1,182,397) | - | (305,030) | 66,967,180 |
| Other assets | 12,885,494 | 2,349,225 | - | - | - | 15,234,719 |
| | <u>70,798,196</u> | <u>12,891,130</u> | <u>(1,182,397)</u> | <u>-</u> | <u>(305,030)</u> | <u>82,201,899</u> |
| Net Book Value | <u>578,860,903</u> | | | | | <u>593,436,775</u> |
| | | | | | | |
| | Balance as at December 31, 2013 | Additions | Transfers from/to fixed assets | Transfers from/to projects | Disposals and Sales | Balance as at December 31, 2014 |
| | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| Cost: | | | | | | |
| Land | 114,682,757 | - | - | 965,028 | (445,833) | 115,201,952 |
| Buildings | 473,335,326 | 1,227,598 | - | 25,102,108 | (1,796,546) | 497,868,486 |
| Other assets | 36,309,109 | 279,552 | - | - | - | 36,588,661 |
| | <u>624,327,192</u> | <u>1,507,150</u> | <u>-</u> | <u>26,067,136</u> | <u>(2,242,379)</u> | <u>649,659,099</u> |
| Accumulated Depreciation: | | | | | | |
| Buildings | 48,739,235 | 9,504,440 | - | - | (330,973) | 57,912,702 |
| Other assets | 10,907,615 | 1,977,879 | - | - | - | 12,885,494 |
| | <u>59,646,850</u> | <u>11,482,319</u> | <u>-</u> | <u>-</u> | <u>(330,973)</u> | <u>70,798,196</u> |
| Net Book Value | <u>564,680,342</u> | | | | | <u>578,860,903</u> |

Investment properties include rented and available for rent properties. These represent “Beirut Souks”, “BCD Cinemas”, a property leased out to the Ministry of Foreign Affairs and Emigrants for use by an international agency, residential complexes, an embassy complex, and other restored buildings.

Disposals of land, building and other assets resulted in a gain of US\$3,177,153 recorded under “Gain on sale and disposal of investment properties” in the statement of profit or loss and other comprehensive income for the year ended December 31, 2015 (US\$4,504,635 for the year ended December 31, 2014).

Depreciation for investment properties in the amount of US\$12,891,130 for the year 2015 (US\$11,482,319 for the year 2014) is recorded under “Charges on rented properties” in the statement of profit or loss and other comprehensive income (Note 22).

The fair value of the investment properties based on a valuation by an independent expert is approximately US\$1.37billion as of December 31, 2015 (US\$1.4billion as of December 31, 2014 based on a market capital approach estimated by the management).

The Company classifies investment properties within level 2 in the hierarchy of fair value measurement (Note 35).

11. INVESTMENTS IN JOINT VENTURES, SUBSIDIARIES AND ASSOCIATES

| | <u>December 31,</u> | |
|--|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| Investment in Beirut Waterfront Development S.A.L. (Joint venture) (a) | 11,385,075 | 6,409,950 |
| Long term loan to Beirut Waterfront Development S.A.L. (Joint venture) (a) | 36,540,000 | 36,540,000 |
| Investment in Beirut Real Estate Management and Services S.A.L. (Joint venture) | 9,000 | 9,000 |
| Investment in Solidere Management Services S.A.L. (Subsidiary) | 124,933 | 124,933 |
| Investment in Solidere Management Services S.A.L. (Offshore) (Subsidiary) | 249,600 | 249,600 |
| Investment in Solidere International Holdings S.A.L. (Subsidiary) (b) | 218,599,600 | 218,599,600 |
| Investment in Solidere International Limited (Associate) (c) | 21,362,232 | 21,362,232 |
| Investment in BCD Cinemas S.A.L. (Associate) (d) | 8,000 | 8,000 |
| Investment in Beirut Hospitality Company S.A.L. (Holding) (Subsidiary) | 10,000,000 | 10,000,000 |
| Due from Beirut Hospitality Company S.A.L. (Holding) (Subsidiary), and its subsidiaries (e) | 28,051,019 | 23,555,169 |
| Less: Provision for impairment (e) | <u>(38,920,300)</u> | <u>(33,219,278)</u> |
| | <u>287,409,159</u> | <u>283,639,206</u> |

- (a) The Company entered into a joint venture agreement on February 11, 2004, with Stow Waterfront S.A.L. (Holding) to establish Beirut Waterfront Development S.A.L. with a 50% stake in the joint venture's total capital amounting to US\$19,900. During the year 2006, the capital of the joint venture was increased to US\$12,819,900 without changing the Company's share in the capital. The main activity of the joint venture is to develop, operate, manage, exploit and sell real estate properties in the Marina area in Beirut Central District.

As per the terms of the agreement, on December 31, 2005, the Company sold properties with an aggregate cost of US\$10,100,000 from inventory of land and projects in progress, to the joint venture for a total consideration of US\$31,600,000. As a result of the sale transaction, the Company realized 50% of the gain on the sale in the amount of US\$10,750,000 in profit or loss in 2005 and deferred the unrealized gain on sales in the amount of US\$10,750,000, recorded under "deferred revenues and other credit balances" in the statement of financial position, to be realized after realization of the sale of the properties to third parties (Note 16).

On June 27, 2006, the Company granted Beirut Waterfront Development S.A.L. a long term loan against issuance of bonds for a total amount of US\$25.2million. This loan is subject to an annual interest of Libor + 2% but not less than 9%, payable on June 30 of each year. The total amount of this loan was due on June 30, 2011. During 2011, the maturity of the above loan was extended to June 30, 2016 with the same terms and conditions of the previous agreement and the accumulated interest up to June 30, 2011 in the amount of US\$11,340,000 was capitalized with the original principal. Interest in the amount of US\$26,138,700 as of December 31, 2015 (US\$22,850,100 as of December 31, 2014) is deferred under "Deferred revenues and other credit balances" in the statement of financial position (Note 16) of which US\$14,854,599 is accrued under "Prepayments and other debit balance" caption (US\$11,622,980 as of December 31, 2014) (Note 6(a)). The deferred interest will be realized when income from the principal activity of the joint venture is realized (Note 16).

During 2015, the general assembly of shareholders of the joint venture approved a capital increase. The Company subscribed, in cash, in the capital increase for an amount of US\$4,975,125 representing its share in the increase.

- (b) In its Extraordinary General Assembly meeting held on November 25, 2013, Solidere International Holdings S.A.L. (Holding) decided to increase its share capital from US\$75,000 to US\$218,600,000 through the issuance of 2,185,250 shares with a par value of US\$100 each. The Company has subscribed in the whole 2,185,250 shares for US\$218,525,000 by transferring the subscription amount from its long term loan to Solidere International Holdings S.A.L. (Holding). The remaining balance of the long term loan was transferred to due from Solidere International Holdings S.A.L. (Holding) (Note 6 (c)) to be repaid on a current basis.
- (c) On June 7, 2007, the Company directly subscribed into the capital of Solidere International Limited for an amount of US\$3,000,060 representing a 0.4286% equity stake. The main activity of the company is to promote, invest in, develop, market and manage, as well as provide consulting services with respect to real estate projects outside the Beirut Central District area of Lebanon.

During 2008 and 2009, the Company increased its direct and indirect ownership in Solidere International Limited to 38.98% by acquiring 153,749 shares for an amount of US\$17,781,850.

During 2012, the Company acquired 7,786 additional shares of Solidere International Limited for an amount of US\$580,322.

- (d) During 2012, the Company subscribed into the capital of BCD Cinemas S.A.L., for an amount of US\$8,000 representing a 40% equity stake in the associate's capital of US\$20,000.

(e) Due from Beirut Hospitality Company S.A.L. (Holding) and its subsidiaries includes:

| | <u>December 31,</u> | |
|---|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Beirut Hospitality Company S.A.L. (Holding) | 6,292,517 | 6,293,714 |
| BHC 1 S.A.L. | 4,161,477 | 4,158,712 |
| BHC 3 S.A.L. | 272,873 | 272,873 |
| BHC 4 S.A.L. | 378,818 | 386,072 |
| BHC 5 S.A.L. | 9,974,432 | 7,200,658 |
| MATS S.A.L. | <u>6,970,902</u> | <u>5,243,140</u> |
| | <u>28,051,019</u> | <u>23,555,169</u> |

During 2015, the Company set up additional provision against impairment of the investment and the receivables due from Beirut Hospitality Company S.A.L. (Holding) and its subsidiaries amounting to US\$5.7million (US\$8.2million in 2014) recorded under "Provision for impairment" in the statement of profit or loss and other comprehensive income.

12. FIXED ASSETS, NET

| | <u>Balance as at</u> | <u>Additions</u> | <u>Transfer from</u> | <u>Disposals</u> | <u>Balance as at</u> |
|----------------------------------|----------------------|------------------|----------------------|-------------------|----------------------|
| | <u>December 31,</u> | | <u>Investment</u> | | <u>and Sales</u> |
| | <u>2014</u> | <u>US\$</u> | <u>Property and</u> | <u>US\$</u> | <u>2015</u> |
| | <u>US\$</u> | <u>US\$</u> | <u>Projects</u> | <u>US\$</u> | <u>US\$</u> |
| | <u>US\$</u> | <u>US\$</u> | <u>in Progress</u> | <u>US\$</u> | <u>US\$</u> |
| Cost: | | | | | |
| Land | 6,172,238 | - | - | - | 6,172,238 |
| Buildings | 29,379,955 | 15,612 | 10,081,019 | - | 39,476,586 |
| Marina | 7,866,624 | - | - | - | 7,866,624 |
| Furniture and fixture | 5,441,378 | 39,496 | - | - | 5,480,874 |
| Freehold improvements | 14,041,838 | 332,000 | 450,763 | - | 14,824,601 |
| Vehicles | 3,089,444 | 3,181 | - | - | 3,092,625 |
| Equipment | 28,797,760 | 264,903 | 37,161 | (114,961) | 28,984,863 |
| Computers | 5,584,397 | 205,232 | - | - | 5,789,629 |
| | <u>100,373,634</u> | <u>860,424</u> | <u>10,568,943</u> | <u>(114,961)</u> | <u>111,688,040</u> |
| Accumulated Depreciation: | | | | | |
| Buildings | 5,177,290 | 571,829 | 1,182,397 | - | 6,931,516 |
| Marina | 1,336,782 | 157,457 | - | - | 1,494,239 |
| Furniture and fixtures | 3,398,949 | 327,539 | - | - | 3,726,488 |
| Freehold improvements | 6,982,810 | 1,327,924 | - | - | 8,310,734 |
| Machines and equipment | 34,439,305 | 1,280,699 | - | - | 35,720,004 |
| | <u>51,335,136</u> | <u>3,665,448</u> | <u>1,182,397</u> | <u>-</u> | <u>56,182,981</u> |
| Net Book Value | <u>49,038,498</u> | | | | <u>55,505,059</u> |

| | Balance as at December 31, 2013 US\$ | Additions US\$ | Transfer from Investment Property US\$ | Disposals and Sales US\$ | Balance as at December 31, 2014 US\$ |
|----------------------------------|---|-------------------|--|--------------------------------|---|
| Cost: | | | | | |
| Land | 6,172,238 | - | - | - | 6,172,238 |
| Buildings | 29,350,622 | 29,333 | - | - | 29,379,955 |
| Marina | 7,866,624 | - | - | - | 7,866,624 |
| Furniture and fixture | 5,399,189 | 42,189 | - | - | 5,441,378 |
| Freehold improvements | 13,531,791 | 510,047 | - | - | 14,041,838 |
| Vehicles | 3,193,062 | 34,259 | - | (137,877) | 3,089,444 |
| Equipment | 28,683,102 | 114,658 | - | - | 28,797,760 |
| Computers | 5,306,253 | 278,144 | - | - | 5,584,397 |
| | <u>99,502,881</u> | <u>1,008,630</u> | <u>-</u> | <u>(137,877)</u> | <u>100,373,634</u> |
| Accumulated Depreciation: | | | | | |
| Buildings | 4,606,852 | 570,438 | - | - | 5,177,290 |
| Marina | 1,179,325 | 157,457 | - | - | 1,336,782 |
| Furniture | 3,089,495 | 309,454 | - | - | 3,398,949 |
| Freehold improvements | 5,807,683 | 1,175,127 | - | - | 6,982,810 |
| Machines and equipment | 33,138,391 | 1,413,086 | - | (112,171) | 34,439,306 |
| | <u>47,821,746</u> | <u>3,625,562</u> | <u>-</u> | <u>(112,171)</u> | <u>51,335,137</u> |
| Net Book Value | <u>51,681,135</u> | | | | <u>49,038,497</u> |

Transfers during 2015 in the aggregate amount of US\$10,568,943 consist of an amount of US\$10,412,396 transferred from "Investment properties" (Note 10), and an amount of US\$156,547 transferred from "Inventory of land and projects in progress" (Note 9 (b)).

The depreciation for the year ended December 31, 2015 and 2014 is included under "Depreciation of fixed assets" in the statement of profit or loss and other comprehensive income.

13. BANK OVERDRAFTS AND SHORT TERM FACILITIES

| | <u>December 31,</u> | |
|-----------------------|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Bank overdrafts | 245,038,335 | 235,578,652 |
| Short term facilities | <u>310,997,094</u> | <u>310,998,348</u> |
| | <u>556,035,429</u> | <u>546,577,000</u> |

As of December 31, 2015 and 2014, the Company has fully utilized its bank overdrafts' limits.

Short term facilities mature within a period of one year.

Short term facilities consist of the following:

| Facility Amount | Maturity Date | Interest Rate | Covenants | Outstanding Balance | |
|--------------------|------------------|------------------|-----------|---------------------|--------------------|
| | | | | December 31, | |
| US\$ | | % | | 2015 US\$ | 2014 US\$ |
| 40,000,000 | 4-Aug-16 | 4.97 | (a) | 40,000,000 | 40,000,000 |
| 60,000,000 | 4-Aug-16 | 4.75 | (a) | 24,000,000 | 36,000,000 |
| 75,000,000 | 3-Feb-16 | 5.00 | (b) | 75,000,000 | 75,000,000 |
| 35,000,000 | 3-Feb-16 | 5.00 | (b) | 35,000,000 | 35,000,000 |
| 100,000,000 | 31-July-16 | 5.625 | (c) | 99,998,150 | 99,998,158 |
| 25,000,000 | 1-Nov-16 | 5.5 | (d) | 25,000,000 | 25,000,190 |
| 12,000,000 | 31-Dec-16 | 5.00 | (e) | 11,998,944 | - |
| | | | | <u>310,997,094</u> | <u>310,998,348</u> |

- (a) The covenants of the agreement stipulate that the Company maintains a maximum's debt to equity ratio and banks' loans of 1:3 and overdrafts and other facilities to equity ratio of 1:4.
- Also, the covenants of the facilities stipulate that the Company maintains a minimum of US\$75million in notes and accounts receivables and maintain a minimum of 750,000 square meters of built properties and US\$1billion in net tangible assets free from any liens.
- (b) The covenants of the agreements stipulate that the Company maintains a maximum debt to equity ratio of 1:2 and a minimum equity balance of US\$1billion.
- (c) The covenants of the facility stipulate that the Company maintains a minimum equity balance of US\$1billion, a minimum equity to assets ratio of 40% and a maximum debt to equity ratio of 50%.
- (d) The covenants of the facility stipulate that the Company maintains a minimum equity balance of US\$1billion, a minimum equity to assets ratio of 40% and a maximum debt to equity ratio of 1.2:1.
- (e) The covenants of the agreement stipulate that the Company maintains a minimum equity balance of US\$1billion, a maximum debt to equity ratio 1.2:1, and a minimum equity to asset ratio of 40%.

Interest expense on bank overdrafts for the year ended December 31, 2015 amounted to US\$14,101,301 and is recorded under "Interest expense" in the statement of profit or loss and other comprehensive income (US\$13,510,968 for the year ended December 31, 2014) (Note 27).

Interest expense on short term facilities for the year ended December 31, 2015 amounted to US\$16,257,889 (US\$15,357,408 for the year ended December 31, 2014) and is recorded under "Interest expense" in the statement of profit or loss and other comprehensive income (Note 27).

14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | <u>December 31,</u> | |
|--|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Accounts payable (a) | 39,908,376 | 37,717,807 |
| Accrued charges and other credit balances (b) | 16,271,326 | 13,079,612 |
| Taxes payable (c) | 21,027,135 | 35,153,484 |
| Provision for end-of-service indemnity and other charges (d) | 13,910,342 | 12,048,400 |
| Provision for contingencies (e) | 13,665,212 | 7,086,410 |
| Accrued interest payable | 1,702,047 | 1,945,694 |
| Due to a joint venture (f) | - | 21,719 |
| | <u>106,484,438</u> | <u>107,053,126</u> |

(a) Accounts payable as of December 31, 2015 and 2014 include balances in the aggregate amount of US\$13.8million due to the Lebanese Government in consideration of the exchange of assets agreement explained in Note 30 (f).

(b) Accrued charges and other credit balances consists of the following:

| | <u>December 31,</u> | |
|--|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Deposits from tenants | 2,821,214 | 3,012,732 |
| Accrued municipality expenses | 1,502,334 | 1,000,000 |
| Accruals for project costs | 4,982,243 | 1,454,000 |
| Accruals for employees and management benefits | 750,000 | 1,896,820 |
| Accruals for utilities costs | 1,785,279 | 2,184,544 |
| Accruals for invoices not received | 416,678 | 145,822 |
| Other | 4,013,578 | 3,385,694 |
| | <u>16,271,326</u> | <u>13,079,612</u> |

(c) Taxes payable consist of the following:

| | <u>December 31,</u> | |
|-------------------------------|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Accrued income tax | - | 15,739,611 |
| Additional tax assessment | 8,400,000 | 8,400,000 |
| Taxes withheld | 689,248 | 781,049 |
| Property tax payable | 8,103,243 | 6,867,500 |
| Value added tax (VAT) payable | 3,834,644 | 3,365,324 |
| | <u>21,027,135</u> | <u>35,153,484</u> |

Rental income is subject to the built-up property tax in accordance with the Lebanese tax law.

Value added tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT except, where the VAT incurred on a purchase of assets or services is not recoverable from VAT authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from, or payable to, the VAT authority is included as part of receivables or payables in the statement of financial position.

Income tax

The applicable tax rate in Lebanon is 15% according to the Lebanese income tax law.

The accrued income tax for the years 2015 and 2014 was estimated as follows:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|-------------------|
| | US\$ | US\$ |
| (Loss)/profit before tax | (120,179,997) | 114,223,003 |
| Add: Non-deductible provisions and charges | 133,943,744 | 24,410,599 |
| Less: Rent revenue from built up property (Net) | (24,674,721) | (31,752,218) |
| Taxable (loss)/profit | (10,910,974) | 106,881,384 |
| Applicable tax rate | <u>15%</u> | <u>15%</u> |
| Accrued income tax | - | 16,032,208 |
| Less: Tax on interest previously settled | (216,833) | (292,597) |
| Accrued income tax payable | <u>-</u> | <u>15,739,611</u> |
| Total retained/accrued income tax | 216,833 | 16,032,208 |
| Add: Reversal of deferred tax asset | - | 1,287,419 |
| (Less): Deferred tax asset – Note 6 (b) | (1,500,000) | - |
| Income tax (benefit)/expense | <u>(1,283,167)</u> | <u>17,319,627</u> |

Additional tax assessment

During 2012, the Company's accounts for the years 2007 to 2010 were reviewed by the tax authorities. The review for the year 2007 resulted in an additional tax liability in the amount of US\$2,500,000 which was provided for in previous year. During 2013, and following the objection filed by the Company, a revision of the initial tax review was issued decreasing the tax liability by an amount of US\$853,000 resulting in a net tax liability in the amount of US\$1,647,000. Moreover, the outcome of the tax review of the Company's accounts for the years 2008 to 2010 was issued during 2013 and resulted in an additional tax liability in the amount of US\$6,800,000 of which an amount of US\$5,900,000 was provided for in previous years. During January 2016, and as result of the above, the Company settled an amount of US\$2.6million (LBP3.9billion) on account of the additional tax assessment.

The Company's accounts and income tax returns for the years 2011 and 2012 are under examination by the tax authorities and results of the examination have not been issued yet. The Company's accounts and income tax returns for the years 2013 until 2015 are still subject to examination and final assessment by the tax authorities. Any additional tax liability is pending to the results of these reviews.

The VAT declarations for the years 2011 until 2015 are still subject to examination and final tax assessment by the VAT department. Any additional tax liability is pending the results of this review.

- (d) The movement of provision for end-of-service indemnity and other charges is as follows:

| | <u>2015</u> US\$ | <u>2014</u> US\$ |
|--------------------------------------|---------------------|---------------------|
| Balance at the beginning of the year | 12,048,400 | 15,228,772 |
| Additions | 3,126,502 | 817,579 |
| Settlements | (1,264,560) | (522,407) |
| Write-back | - | (3,475,544) |
| Balance at the end of the year | <u>13,910,342</u> | <u>12,048,400</u> |

- (e) The movement of provision for contingencies is as follows:

| | <u>2015</u> US\$ | <u>2014</u> US\$ |
|--------------------------------------|---------------------|---------------------|
| Balance at the beginning of the year | 7,086,410 | 6,286,410 |
| Additions | 7,500,000 | 800,000 |
| Settlement | (921,198) | - |
| Balance at the end of the year | <u>13,665,212</u> | <u>7,086,410</u> |

- (f) Due to a joint venture represents the balance due to Beirut Waterfront Development S.A.L. (joint venture) as of December 31, 2014. This balance was interest free and was fully settled in 2015.

15. DIVIDENDS PAYABLE

| General Assembly Date | Dividend per Share | Declared | Settled/ Distributed up to December 31, 2015 | December 31, | |
|--------------------------|-----------------------|----------------------|---|-------------------|-------------------|
| | | | | 2015 | 2014 |
| | | | | Payable | Payable |
| US\$ | US\$ | US\$ | US\$ | US\$ | US\$ |
| June 29, 1996 | 0.20 | 30,918,413 | 29,463,336 | 1,455,077 | 1,464,844 |
| June 30, 1997 | 0.25 | 40,367,172 | 37,697,877 | 2,669,295 | 2,682,023 |
| June 29, 1998 | 0.25 | 39,351,753 | 36,115,116 | 3,236,637 | 3,254,669 |
| June 23, 2003 | Stock dividend | 19,625,550 | 19,606,235 | 19,315 | 19,315 |
| June 12, 2006 | 0.6 | 94,831,106 | 90,644,162 | 4,186,944 | 4,243,041 |
| June 22, 2007 | 1.00 | 155,093,702 | 148,266,533 | 6,827,169 | 6,963,974 |
| July 15, 2008 | 1.00 | 155,090,832 | 145,581,170 | 9,509,662 | 14,452,457 |
| July 13, 2009 | 1.15 | 176,479,956 | 165,687,517 | 10,792,440 | 10,955,540 |
| July 19, 2010 | 1.15 | 175,228,434 | 163,001,382 | 12,227,052 | 12,413,197 |
| August 1, 2011 | 0.40 | 60,912,291 | 57,407,579 | 3,504,712 | 3,625,230 |
| August 1, 2011 | Stock dividend | 85,987,850 | 85,987,850 | - | - |
| July 30, 2012 | 0.25 | 39,316,239 | 35,858,035 | 3,458,204 | 3,606,742 |
| July 30, 2012 | Stock dividend | 42,744,616 | 42,744,616 | - | - |
| July 13, 2015 | 0.1 | 16,015,415 | 12,656,815 | 3,358,600 | - |
| July 13, 2015 | Stock dividend | 36,859,996 | 36,859,996 | - | - |
| | | <u>1,168,823,325</u> | <u>1,107,578,219</u> | <u>61,245,107</u> | <u>63,681,032</u> |

The General Assembly held on July 13, 2015 decided to distribute dividends on the basis of US\$0.1 per share totaling to USD16million and to distribute class (A) and (B) shares from its treasury shares on the basis of 1 share for every 50 shares for a total of approximately US\$37million and issued the related share certificates. The total distribution tax amounted to US\$3million. An amount of approximately US\$13million was settled up to December 31, 2015.

The outstanding balance of unpaid dividends relates mostly to unclaimed dividends and dividends pertaining to undelivered class (A) shares.

16. DEFERRED REVENUES AND OTHER CREDIT BALANCES

| | December 31, | |
|--|-------------------|-------------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Cash down payments and commitments on sale contracts | 42,714,603 | 11,121,187 |
| Deferred rental revenue and related deposits | 19,124,700 | 20,945,099 |
| Unrealized gain on sale of properties to a joint venture (Note 11 (a)) | 10,750,000 | 10,750,000 |
| Deferred interest revenue on a loan to a joint venture (Note 11 (a)) | 26,138,700 | 22,850,100 |
| | <u>98,728,003</u> | <u>65,666,386</u> |

Cash down payments and commitments on sale contracts include balances aggregating to approximately US\$31million that relate to eight sales contracts with an aggregate potential gross sales value of US\$125million as of December 31, 2015 (US\$10million that relate to two sales contracts with an aggregate potential gross sales value of US\$72million).

Deferred rental revenue and related deposits represent down payments on lease and rental agreements and reservation deposits for the rental of real estate properties.

17. TERM BANK LOANS

| Loan Amount | | Maturity Date | Interest Rate % | Loan Repayment and Covenants | Outstanding Balance December 31, | |
|--------------|--------------|-------------------|-----------------|------------------------------|----------------------------------|--------------------|
| 2015 US\$ | 2014 US\$ | | | | 2015 US\$ | 2014 US\$ |
| 75,000,000 | 75,000,000 | June 11, 2016 | 5.00 | (a) | 49,999,236 | 49,999,236 |
| 40,000,000 | 40,000,000 | July 3, 2015 | 5.00 | (b) | - | 15,000,000 |
| 35,000,000 | 35,000,000 | January 5, 2017 | 5.5 | (c) | 25,000,000 | 35,000,000 |
| 3,255,000 | 3,255,000 | December 31, 2018 | 6.50 | (d) | 1,952,038 | 2,603,029 |
| 50,000,000 | - | December 31, 2019 | 5.5 | (e) | 49,999,900 | - |
| | | | | | <u>126,951,174</u> | <u>102,602,265</u> |

- (a) The loan will be fully repaid at maturity. The covenants of the loan stipulate that the Company should maintain a maximum debt to equity ratio of 1:1 and a minimum current ratio of 1.2:1.
- (b) The repayment of the loan was through 8 equal quarterly installments of US\$5million each. The loan balance of US\$15million was settled during 2015 (US\$20million was settled during 2014).
- (c) The repayment of the loan will be through 2 equal payments of US\$10million each during 2016 and a final payment of US\$15million during 2017. The covenants of the loan stipulate that the Company should maintain a maximum gearing ratio of 1:1, debt to equity ratio of 2:1, current ratio of 1:1 and maintain a minimum built-up area of 750,000 Sqm. An amount of US\$10million was settled during 2015 prior to due date.
- (d) The purpose of the loan is the purchase of an apartment, plot 1456 of Mina el Hosn. Accordingly, the Company granted the bank a first degree mortgage over the above mentioned apartment. The repayment of the loan will be through 5 annual payments of US\$651,000 each, starting December 1, 2014. An amount of US\$651,000 was settled during 2015 (US\$651,000 was settled during 2014).
- (e) The repayment of the loan will be through 4 equal annual installments of US\$12,500,000 each, starting after the end of the grace period on December 31, 2016.

Term bank loans carry the following maturities:

| | December 31, | |
|------|--------------------|--------------------|
| | 2015 US\$ | 2014 US\$ |
| 2015 | - | 65,649,265 |
| 2016 | 73,149,174 | 20,651,000 |
| 2017 | 28,151,000 | 15,651,000 |
| 2018 | 13,151,000 | 651,000 |
| 2019 | 12,500,000 | - |
| | <u>126,951,174</u> | <u>102,602,265</u> |

Early redemption of term bank loans is not subject to penalty provided the redemption is in accordance with the terms and conditions stated in the loans agreements

Interest expense on term bank loans for the year 2015 amounted to US\$5,558,069 (US\$5,373,629 for the year 2014) and is recorded under "Interest expense" in the separate statement of profit or loss and other comprehensive income (Note 27).

18. CAPITAL

Capital as at December 31, 2015 and 2014 consists of 165,000,000 shares of US\$10 par value, authorized and fully paid and divided in accordance with Law 117/91 into the following:

- Class "A", amounting to 100,000,000 shares represented contribution in kind of properties in the BCD, based on the resolutions of the High Appraisal Committee. All Class A shares were deemed to have been issued and outstanding since the establishment of the Company.
- Class "B", amounting to 65,000,000 shares represented capital subscription in cash and are all issued and fully paid at the establishment of the Company.

Class "A" and Class "B" shares have the same rights and obligations.

As of December 31, 2015, the Company had 12,681,100 Class A shares listed on the London Stock Exchange in the form of Global Depository Receipts (GDR) (12,553,806 Class A shares as of December 31, 2014).

19. LEGAL RESERVE

In conformity with the Company's articles of incorporation and the Lebanese Code of Commerce, 10 % of the annual net income is required to be transferred to legal reserve until this reserve equals one third of capital. This reserve is not available for dividend distribution.

20. TREASURY SHARES

Treasury shares as at December 31, 2015 represent 1,975,093 class (A) and (B) shares of which 396,344 shares represent Global Depository Receipts (GDR) (4,846,204 class (A) and (B) treasury shares as at December 31, 2014 of which 396,344 shares represent Global Depository Receipts (GDR)). Treasury shares are stated at the weighted average cost.

According to its articles of incorporation, the Company may purchase up to 10% of its share capital without the existence of free reserves, provided that it shall resell these shares within a period not exceeding eighteen months.

21. REVENUES FROM RENDERED SERVICES

| | Year Ended | |
|--|------------------|------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Services rendered to related parties (Note 29) | 2,495,192 | 2,182,551 |
| Broadband network revenues | <u>3,916,663</u> | <u>3,888,871</u> |
| | <u>6,411,855</u> | <u>6,071,422</u> |

22. DEPRECIATION OF AND CHARGES ON RENTED PROPERTIES

| | Year Ended | |
|--|---------------------|---------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Depreciation expense (Note 10) | 12,891,130 | 11,482,319 |
| Property taxes | 7,588,870 | 6,867,500 |
| Manpower | 7,853,982 | 6,693,035 |
| Advertising | 178,950 | 248,410 |
| Electricity, maintenance and other related charges | 7,540,952 | 10,290,214 |
| Recoveries from tenants | <u>(10,355,833)</u> | <u>(10,090,119)</u> |
| | <u>25,698,051</u> | <u>25,491,359</u> |

Manpower includes reallocated salaries, benefits and related charges in the aggregate amount of US\$6,342,172 during the year ended December 31, 2015 (US\$5,222,217 during the year ended December 31, 2014) (Note 24).

23. COST OF RENDERED SERVICES

| | Year Ended | |
|--|------------------|------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Cost of services rendered to related parties (Note 24) | 2,495,192 | 2,182,551 |
| Broadband network cost of services rendered | <u>3,099,322</u> | <u>2,977,240</u> |
| | <u>5,594,514</u> | <u>5,159,791</u> |

24. GENERAL AND ADMINISTRATIVE EXPENSES

| | Year Ended | |
|---|-------------------|-------------------|
| | December 31, | |
| | 2015 | 2014 |
| | US\$ | US\$ |
| Salaries, benefits and related charges | 22,713,472 | 24,165,694 |
| Board of directors' remuneration | 300,000 | - |
| Professional services | 1,729,604 | 1,218,273 |
| Promotion and advertising | 888,235 | 740,154 |
| Utilities, office, maintenance and other similar expenses | 3,485,471 | 3,500,079 |
| Travel and accommodation | 585,063 | 624,699 |
| Other expenses | <u>1,222,724</u> | <u>900,550</u> |
| | <u>30,924,569</u> | <u>31,149,449</u> |

The Company reallocated salaries, benefits and related charges and administrative expenses amounting to US\$8,284,866 to construction cost during the year ended December 31, 2015 (US\$9,879,240 during the year ended December 31, 2014) (Note 9).

The Company reallocated salaries, benefits and related charges amounting to US\$6,342,172 to charges on rented property during the year ended December 31, 2015 (US\$5,222,217 during the year ended December 31, 2014) (Note 22).

The Company reallocated salaries, benefits and related charges amounting to US\$2,495,192 to cost of rendered services during the year ended December 31, 2015 (US\$2,182,551 during the year ended December 31, 2014) (Note 23).

25. OTHER INCOME

| | Year Ended | |
|-----------------------------------|------------------|----------------|
| | December 31, | |
| | 2015 | 2014 |
| | US\$ | US\$ |
| Gain on sale of fixed assets | - | 21,794 |
| Income from events and activities | 18,591 | 435,742 |
| Other | <u>4,574,226</u> | <u>-</u> |
| | <u>4,592,817</u> | <u>457,536</u> |

“Other” represents fees charged by the Company to one of its customer for the change in use of a plot of land sold in prior years.

26. INTEREST INCOME

| | Year Ended | |
|---|-------------------|-------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Interest income from notes and accounts receivable | 12,721,760 | 13,963,708 |
| Interest income from banks | 4,440,070 | 5,470,279 |
| Interest income from asset-backed securities (Note 8) | 1,990,605 | 1,029,001 |
| Interest derecognized on asset-backed securities (Note 8) | - | (1,024,215) |
| | <u>19,152,435</u> | <u>19,438,773</u> |

27. INTEREST EXPENSE

| | Year Ended | |
|---|-------------------|-------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Interest expense on short term facilities (Note 13) | 16,257,889 | 15,357,408 |
| Interest expense on bank overdrafts (Note 13) | 14,101,301 | 13,510,968 |
| Interest expense on term bank loans (Note 17) | 5,558,069 | 5,373,629 |
| Interest expense allocated to infrastructure costs (Note 9 (a.3)) | (1,026,826) | (228,010) |
| Interest expense allocated to real estate development projects (Note 9 (b)) | (734,537) | (865,919) |
| Bank commissions and charges | <u>168,068</u> | <u>159,089</u> |
| | <u>34,323,964</u> | <u>33,307,165</u> |

28. NOTES TO THE CASH FLOW STATEMENT

(a) Depreciation was applied as follows:

| | Year Ended | |
|---|---------------------|-------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Depreciation of fixed assets (Note 12) | 3,665,448 | 3,625,562 |
| Depreciation of investment properties (Note 10) | <u>12,891,130</u> | <u>11,482,319</u> |
| Depreciation charge for the year | <u>16,556,578</u> | <u>15,107,881</u> |

(b) Interest expense consists of the following:

| | Year Ended | |
|---|---------------------|-------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Interest charged as period cost (Note 27) | 34,323,964 | 33,307,164 |
| Interest expense allocated to inventory of land and projects in progress (Note 27) | <u>1,761,363</u> | <u>1,093,929</u> |
| Total interest expense | <u>36,085,327</u> | <u>34,401,093</u> |

(c) Non-cash transactions in operating and investing activities include transfers from inventory of land and projects in progress to investment properties in the amount of US\$38,718,504 (Note 10) as of December 31, 2015 (US\$26,067,136 as of December 31, 2014).

(d) Non-cash transactions in operating activities include accrued interest income on long term loan to a joint venture in the amount of US\$3,231,619 for the year ended December 31, 2015 (US\$3,401,480 for the year ended December 31, 2014) which was excluded from prepayments and other debit balances against deferred revenues and other credit balances.

(e) Cash and cash equivalents comprise the following:

| | Year Ended | |
|----------------------------------|----------------------|----------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Cash on hand (Note 5) | 41,597 | 40,252 |
| Checks under collection (Note 5) | 6,186,683 | 26,844,731 |
| Current accounts (Note 5) | 5,936,070 | 9,943,130 |
| Short term deposits (Note 5) | 114,473,348 | 110,377,774 |
| Bank overdrafts (Note 13) | <u>(245,038,335)</u> | <u>(235,578,652)</u> |
| | <u>(118,400,637)</u> | <u>(88,372,765)</u> |

29. RELATED PARTIES TRANSACTIONS

These represent transactions with related parties, i.e. significant shareholders, directors and senior management of the Company, and companies of which they are principal owners and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Cash and bank balances include US\$77,243,443 as of December 31, 2015 (US\$81,047,649 as of December 31, 2014) representing current accounts and short term deposits with a local bank who is a significant but minority shareholder of the Company.

Bank overdrafts and short term facilities include US\$110,049,241 as of December 31, 2015 (US\$110,459,467 as of December 31, 2014) representing short term facilities and overdrafts with a local bank who is a significant but minority shareholder of the Company.

Included under "Interest expense" in the statement of profit or loss and other comprehensive income an amount of US\$5,576,389 for the year ended December 31, 2015 (US\$5,576,650 for the year ended December 31, 2014) representing interest expense on short term facilities and overdrafts with a local bank who is a significant but minority shareholder of the Company.

Certain directors are members of the boards of directors of banks with whom the Company has various banking activities.

Gross balances with subsidiaries, associates and joint ventures reflect receivable balance amounted to US\$39,745,240 as of December 31, 2015 (US\$33,871,212 as of December 31, 2014) and are disclosed in Notes 6, 11 and 14.

Accrued interest income on a long term loan granted by the Company to Beirut Waterfront Development S.A.L., a joint venture, amounted to US\$14,854,599 as of December 31, 2015 (US\$11,622,980 as of December 31, 2014), Notes 6(a) and 11(a).

During 2015, the Company charged Solidere International Limited, an associate, administrative expenses in the amount of US\$824,919 (US\$543,388 for the year 2014) (Note 21), in addition to an amount of US\$7,100 (US\$21,080 for the year 2014) representing payments on its behalf.

During 2015, the Company rendered services to City Makers S.A.R.L., a related party, for an aggregate amount of US\$89,561 (US\$70,467 for the year 2014) (Note 21).

During 2015, the Company rendered services to Solidere Management Services S.A.L., a subsidiary, in the aggregate amount of US\$1,580,712 (US\$1,500,000 for the year 2014) (Note 21).

During 2014, the Company rendered services to BCD Cinemas S.A.L. in the aggregate amount of US\$68,696 (Note 21).

Total benefits paid to executives and members of the Board of Directors (including salary, bonus, remuneration and others), included within "General and administrative expenses", for the year ended December 31, 2015 amounted to US\$2,746,396 (US\$3,445,040 for the year ended December 31, 2014) and a debit balance in the amount of US\$990,287 is outstanding as at December 31, 2015.

Furthermore, the Company set up a provision for impairment in the amount of US\$5,701,022 during 2015 (US\$8,219,278 during 2014) against its investment in and receivables from its hospitality subsidiaries (Note 11).

In addition, the Company setup a provision for impairment in the amount of US\$3,502,785 during 2015 (2014: US\$1,500,000) against a receivable from a subsidiary (Note 6).

Income arising and expenses incurred from the Company's transactions with other related parties, other than those disclosed in the financial statements, do not form a significant portion of the Company's operations.

30. COMMITMENTS AND CONTINGENCIES

- (a) An agreement between the Company and the Council for Development and Reconstruction ("CDR") was promulgated through Decree No. 5665 dated September 21, 1994, duly approved by the Council of Ministers. By virtue of this agreement, the Company was granted 291,800sqm of the reclaimed land surface (totaling 608,000 sqm) against the execution by the Company of the sea landfill and infrastructure works.
- (b) The total projected cost for completion of the BCD project has been estimated by management to be approximately US\$2billion. This amount is used as a base for the determination of cost of sales.
- (c) Commitments for contracted works not executed as of December 31, 2015 amounted to approximately US\$74million (US\$115million as of December 31, 2014).
- (d) The Company has submitted to the "CDR" claims aggregating to US\$13.6million representing mainly change orders to infrastructure works in the traditional BCD which were incurred by the Company on behalf of the Government. These claims were neither approved nor confirmed by the concerned party nor recorded as receivables in the accompanying financial statements.
- (e) The Company is a defendant in various legal proceedings and has litigations pending before the courts and faces several claims raised by contractors. On the basis of advice received from the external legal counsel and the Company's technical department, the directors are of the opinion that any negative outcome thereof, if any, would not have a material adverse effect on the financial position of the Company.

- (f) On June 7, 1997, the Company signed an exchange agreement with the Lebanese Government. By virtue of this agreement, the Company acquired additional built up area of approximately 58,000sqm and 556,340 Class A shares in exchange for approximately 15,000sqm and the payment of US\$38.7million to restore governmental buildings. US\$25million have already been paid and accounted for and the balance of US\$13.8million continues to be included under accounts payable. According to the terms of the agreement, the Company undertook to build a governmental building and to conclude ten finance leases over seven years for certain buildings belonging to the Lebanese Government. In 1999, the government canceled the exchange and finance lease agreement. The implementation and the effect of cancellation is not yet determined and has not been reflected in the accompanying financial statements.
- (g) In prior periods, the Company submitted to the Ministry of Culture and Higher Education claims totaling US\$17.7million representing compensation for delays that resulted from excavation works. These claims were not yet approved nor confirmed by the concerned authorities nor recorded as receivables in the accompanying financial statements.
- (h) For the purpose of enhancing and improving land value in Zokak Al Blat area and to settle the recuperation of a lot in that area, the Company signed in 2002 an agreement with the Armenian Orthodox prelacy to demolish the building on the recuperated lot and to transfer corresponding building rights to another adjacent lot with minimum building rights of 4,900sqm against ceding of owners' shares from both lots. Additionally, a built up area of 5,335sqm (US\$2,700,000) remains as a contingent loss to the Company in case the prelacy decides to build this area within the next 10 years following this agreement. During November 2010, an agreement was signed by both parties in which it was agreed that November 2010 would be the start date for the 10 years period as it represents the date of finalization of parcellation and massing of plots number 1137 and 1138 of Zokak Al Blat area subject to the said agreements.
- (i) The Company is defendant in a lawsuit raised by a Group of jewelers and the jewelers syndicate. The Company appealed the court's decision in which the Company was required to register certain commercial shops in Beirut Souks. The case was deferred until April 4, 2016 and then deferred to June 13, 2016.
- (j) The Company is a party in a claim of a delay penalty estimated at around US\$300,000 for not executing a judgement. Moreover, the Company has appealed the case in front the civil court to cancel this judgement. The case was postponed to February 12, 2016 when the judge condemned the Company to pay the plaintiff a fine of LBP150million. The Company challenged this judgment before the court of appeal on February 19, 2016 and obtained from the latter a stay of execution on March 10, 2016 which shall remain in force until the case is determined by the court of appeal. The case is currently pending before this Court and no hearing has been fixed yet.
- (k) The Company has commitments and contingencies in the form of letters of guarantee in the amount of US\$11,783,633 as at December 31, 2015 (as at December 31, 2014 commitments and contingencies in the form of letters of guarantee in the amount of US\$3,405,977).

31. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2015 and 2014.

The capital structure of the Company consists of debt and equity. Debt consists of total liabilities less cash and bank balances. Equity comprises capital, reserves, retained earnings, cumulative change in fair value and deficit on treasury shares' activity less treasury shares.

The Company monitors capital on the basis of the debt-to-capital ratio (gearing ratio). The gearing ratio as at December 31, 2015 and 2014 was as follows:

| | <u>December 31,</u> | |
|------------------------------|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| Total liabilities | 949,444,151 | 885,579,809 |
| Less: Cash and bank balances | (126,637,698) | (147,205,887) |
| Total debt | <u>822,806,453</u> | <u>738,373,922</u> |
| Total equity | <u>1,836,269,933</u> | <u>1,974,933,312</u> |
| Gearing ratio | <u>0.45</u> | <u>0.37</u> |

32. RISK MANAGEMENT

The Company's principal financial liabilities, comprise bank loans, bank overdrafts and short term facilities, deferred revenues and other credit balances, dividends payable and accounts payable and other liabilities. The main purpose of these financial liabilities is to raise funds for the Company's operations. The Company has various financial assets such as accounts and notes receivable and cash and bank balances, which arise directly from its operations. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

(a) Interest Rate Risk:

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other conditions held constant, on the Company's profit before tax.

| | <u>Increase/ decrease in basis points</u> | <u>Effect on profit before tax</u> US\$ |
|--------------|---|--|
| 2015: | | |
| US Dollar | +50 | 493,194 |
| US Dollar | -25 | (246,597) |
| 2014: | | |
| US Dollar | +50 | 634,220 |
| US Dollar | -25 | (317,110) |

(b) Foreign Currency Risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not materially exposed to currency risk since the majority of its financial assets and liabilities are denominated in U.S. Dollars which has been stable since many years against the local currency.

(c) Credit Risk:

The Company's credit risk is primarily attributable to its liquid funds, receivables and other debit balances. The amounts presented in the statement of financial position are stated at net realizable value, estimated by the Company's management based on prior experience and the current economic conditions.

The Company's liquid funds are placed with prime banks.

The Company trades mostly with recognized, credit worthy third parties and monitors receivable balances and collection on an ongoing basis.

The Company's credit risk exposure with respect to accounts and notes receivable is disclosed under Note 7.

The Company's maximum exposure to credit risk is the carrying amount as disclosed in Notes 5, 6, 7 and 8.

The Company's financial assets are segregated by geographical area as follows:

| | December 31, 2015 | | |
|---------------------------------------|--------------------------|----------------|--------------------|
| | Lebanon | Europe | Total |
| | US\$ | US\$ | US\$ |
| Cash and bank balances | 126,277,762 | 359,936 | 126,637,698 |
| Other debit balances | 42,580,858 | - | 42,580,858 |
| Accounts and notes receivable, net | 466,209,794 | - | 466,209,794 |
| Investment in asset-backed securities | <u>69,481,753</u> | <u>-</u> | <u>69,481,753</u> |
| Total financial assets | <u>704,550,167</u> | <u>359,936</u> | <u>704,910,103</u> |

| | December 31, 2014 | | |
|---------------------------------------|--------------------------|----------------|--------------------|
| | Lebanon | Europe | Total |
| | US\$ | US\$ | US\$ |
| Cash and bank balances | 146,375,961 | 829,926 | 147,205,887 |
| Other debit balances | 39,816,942 | - | 39,816,942 |
| Accounts and notes receivable, net | 552,290,794 | - | 552,290,794 |
| Investment in asset-backed securities | <u>72,768,003</u> | <u>-</u> | <u>72,768,003</u> |
| Total financial assets | <u>811,251,700</u> | <u>829,926</u> | <u>812,081,626</u> |

(d) Liquidity Risk:

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and short term bank facilities and term bank loans.

The table below summarizes the maturity profile of the Company's liabilities as of December 31, based on contractual undiscounted liabilities:

| | December 31, 2015 | | | | |
|---|--------------------------|--------------------|--------------------|-------------------|--------------------|
| | No Maturity | Less than | 3-12 | 1 to 5 | Total |
| | US\$ | 3 Months | Months | Years | US\$ |
| Bank overdrafts and short term facilities | 245,038,335 | 110,497,260 | 207,864,167 | - | 563,399,762 |
| Accounts payable and other liabilities | 25,633,801 | 15,976,622 | - | - | 41,610,423 |
| Dividends payable | 61,245,107 | - | - | - | 61,245,107 |
| Deferred revenues and other credit balances | 87,978,003 | - | - | - | 87,978,003 |
| Term bank loans | - | 981,678 | 78,392,664 | 58,063,705 | 137,438,047 |
| Non-financial liabilities | <u>75,624,015</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>75,624,015</u> |
| | <u>495,519,261</u> | <u>127,455,560</u> | <u>286,256,831</u> | <u>58,063,705</u> | <u>967,295,357</u> |
| | December 31, 2014 | | | | |
| | No Maturity | Less than | 3-12 | 1 to 5 | Total |
| | US\$ | 3 Months | Months | Years | US\$ |
| Bank overdrafts and short term facilities | 235,578,652 | 110,497,260 | 204,600,814 | - | 550,676,726 |
| Accounts payable and other liabilities | 24,851,181 | 14,834,039 | - | - | 39,685,220 |
| Dividends payable | 63,681,032 | - | - | - | 63,681,032 |
| Deferred interest revenues | 54,916,386 | - | - | - | 54,916,386 |
| Term bank loans | - | 15,488,356 | 74,041,823 | 17,216,998 | 106,747,177 |
| Non-financial liabilities | <u>78,117,906</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>78,117,906</u> |
| | <u>457,145,157</u> | <u>140,819,655</u> | <u>278,642,637</u> | <u>17,216,998</u> | <u>893,824,447</u> |

33. OPERATING SEGMENT

For management purposes, the Company is organized into business units according to their operations and has two reportable segments as follows:

- Real estate sales
- Real estate rental and rendered services

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss and is measured consistently with operating profit or loss in the financial statements.

| | December 31, 2015 | | |
|-------------------|--------------------------|---|----------------------|
| | Real Estate Sales | Real Estate Rental and Rendered Services | Total |
| | US\$ | US\$ | US\$ |
| Total assets | <u>2,150,309,867</u> | <u>635,404,217</u> | <u>2,785,714,084</u> |
| Total liabilities | <u>732,881,791</u> | <u>216,562,360</u> | <u>949,444,151</u> |
| | December 31, 2014 | | |
| | Real Estate Sales | Real Estate Rental and Rendered Services | Total |
| | US\$ | US\$ | US\$ |
| Total assets | <u>2,233,099,666</u> | <u>627,413,455</u> | <u>2,860,513,121</u> |
| Total liabilities | <u>693,575,878</u> | <u>192,003,931</u> | <u>885,579,809</u> |

2015

| | Real Estate | | | Total US\$ |
|---------------------------------------|------------------------------|---|---------------------|----------------|
| | Real Estate Sales US\$ | Rental and Rendered Services US\$ | Unallocated US\$ | |
| Revenues | 26,801,762 | 63,384,734 | - | 90,186,496 |
| Cost of revenues | (6,987,900) | (31,292,565) | - | (38,280,465) |
| Gain on sale of investment properties | - | 3,177,153 | - | 3,177,153 |
| Net revenues from operations | 19,813,862 | 35,269,322 | - | 55,083,184 |
| General and administrative expenses | (27,832,112) | (3,092,457) | - | (30,924,569) |
| Depreciation of fixed assets | (3,298,902) | (366,545) | - | (3,665,447) |
| Provision for impairment | (93,450,743) | (10,750,000) | (9,203,807) | (113,404,550) |
| Provision for contingencies | (7,500,000) | - | - | (7,500,000) |
| Write-off of receivables | - | (4,778,425) | - | (4,778,425) |
| Loss from rescheduled receivables | (2,553,157) | - | - | (2,553,157) |
| Other expenses, net | (350,000) | - | - | (350,000) |
| Other income | 4,592,817 | - | - | 4,592,817 |
| Taxes, fees and stamps | (521,696) | - | - | (521,696) |
| Interest income | 19,152,435 | - | - | 19,152,435 |
| Interest expense | (34,323,964) | - | - | (34,323,964) |
| Loss on exchange | (986,625) | - | - | (986,625) |
| Loss before tax | (127,258,085) | 16,281,895 | (9,203,807) | (120,179,997) |
| Income tax benefit | 1,283,167 | - | - | 1,283,167 |
| Loss for the year | (125,974,918) | 16,281,895 | (9,203,807) | (118,896,830) |

2014

| | Real Estate | | | Total US\$ |
|---|------------------------------|---|---------------------|---------------|
| | Real Estate Sales US\$ | Rental and Rendered Services US\$ | Unallocated US\$ | |
| Revenues | 169,473,806 | 67,549,464 | - | 237,023,270 |
| Cost of revenues | (28,417,648) | (30,651,150) | - | (59,068,798) |
| Gain on sale of investment properties | - | 4,504,635 | - | 4,504,635 |
| Net revenues from operations | 141,056,158 | 41,402,949 | - | 182,459,107 |
| General and administrative expenses | (28,034,504) | (3,114,945) | - | (31,149,449) |
| Depreciation of fixed assets | (3,263,006) | (362,556) | - | (3,625,562) |
| Provision for impairment | - | - | (9,719,278) | (9,719,278) |
| Write-back of provision for end-of-service indemnity | 3,475,544 | - | - | 3,475,544 |
| Provision for other debit balances | - | (2,100,000) | - | (2,100,000) |
| Provision for contingencies | (800,000) | - | - | (800,000) |
| Write-off of receivables | - | (3,188,017) | - | (3,188,017) |
| Loss from rescheduled receivables | (5,925,711) | - | - | (5,925,711) |
| Other expenses | (93,019) | - | - | (93,019) |
| Other income | 457,536 | - | - | 457,536 |
| Taxes, fees and stamps | (577,126) | - | - | (577,126) |
| Interest income | 19,438,773 | - | - | 19,438,773 |
| Interest expense | (33,307,165) | - | - | (33,307,165) |
| Loss on exchange | (1,122,630) | - | - | (1,122,630) |
| Profit before tax | 91,304,850 | 32,637,431 | (9,719,278) | 114,223,003 |
| Income tax expense | (17,319,627) | - | - | (17,319,627) |
| Profit for the year | 73,985,223 | 32,637,431 | (9,719,278) | 96,903,376 |

34. CLASSIFICATION OF STATEMENT OF FINANCIAL POSITION ITEMS

| <u>ASSETS</u> | <u>December 31,</u> | |
|--|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| <u>Current Assets</u> | | |
| Cash and banks balances | 126,637,698 | 147,205,887 |
| Prepayments and other debit balances - Current portion | 45,439,981 | 37,982,218 |
| Accounts and notes receivables, net - Current portion | 171,564,236 | 138,181,788 |
| Investment in assets-backed securities - Current portion | 9,007,237 | - |
| Total Current Assets | <u>352,649,152</u> | <u>323,369,893</u> |
| <u>Non Current Assets</u> | | |
| Prepayments and other debit balances - Non-current portion | 7,479,017 | 10,450,262 |
| Accounts and notes receivables, net - Non-current portion | 294,645,558 | 414,109,006 |
| Investments in assets-backed securities - Non-current portion | 60,474,516 | 72,768,003 |
| Inventory of land and projects in progress | 1,134,114,848 | 1,128,277,351 |
| Investment properties, net | 593,436,775 | 578,860,903 |
| Investment in joint ventures, subsidiaries and associates | 287,409,159 | 283,639,206 |
| Fixed assets, net | 55,505,059 | 49,038,497 |
| Total Non-Current Assets | <u>2,433,064,932</u> | <u>2,537,143,228</u> |
| TOTAL ASSETS | <u>2,785,714,084</u> | <u>2,860,513,121</u> |
| <u>LIABILITIES</u> | | |
| <u>Current Liabilities</u> | | |
| Bank overdrafts and short term facilities - Current portion | 556,035,429 | 546,577,000 |
| Accounts payable and other liabilities - Current portion | 84,908,884 | 87,918,316 |
| Dividends payable | 61,245,107 | 63,681,032 |
| Deferred revenue and other credit balances - Current portion | 61,839,303 | 32,066,286 |
| Term bank loans - Current portion | 73,149,174 | 65,649,265 |
| Total Current Liabilities | <u>837,177,897</u> | <u>795,891,899</u> |
| <u>Non Current Liabilities</u> | | |
| Accounts payable and other liabilities – Non-current portion | 21,575,554 | 19,134,810 |
| Deferred revenue and other credit balances - Non current portion | 36,888,700 | 33,600,100 |
| Term bank loans – Non-current portion | 53,802,000 | 36,953,000 |
| Total Non-Current Liabilities | <u>112,266,254</u> | <u>89,687,910</u> |
| TOTAL LIABILITIES | <u>949,444,151</u> | <u>885,579,809</u> |
| <u>EQUITY</u> | | |
| Issued capital at par value US\$10 per share: | | |
| 100,000,000 class (A) shares | 1,000,000,000 | 1,000,000,000 |
| 65,000,000 class (B) shares | 650,000,000 | 650,000,000 |
| | 1,650,000,000 | 1,650,000,000 |
| Legal reserve | 163,240,038 | 163,240,038 |
| Retained earnings | 76,578,117 | 248,350,358 |
| Deficit on treasury shares' activity | (21,382,494) | (2,446,798) |
| Less: Treasury shares | (32,165,728) | (84,210,286) |
| Total Equity | <u>1,836,269,933</u> | <u>1,974,933,312</u> |
| TOTAL LIABILITIES AND EQUITY | <u>2,785,714,084</u> | <u>2,860,513,121</u> |

35. FAIR VALUE MEASUREMENT

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 3.

The summary of the Company's classification of each class of assets and liabilities and their fair values are as follows:

| Notes | Carrying Amount US\$ | December 31, 2015 | | | Total US\$ | |
|---|-------------------------|--------------------|------------------|----------------------|---------------|----------------------|
| | | Fair Value | | | | |
| | | Level 1 US\$ | Level 2 US\$ | Level 3 US\$ | | |
| Financial Assets measured at: | | | | | | |
| Amortized cost | | | | | | |
| Cash and bank balances | 5 | 126,637,698 | 6,228,280 | 120,409,418 | - | 126,637,698 |
| Other debit balances | 6 | 42,580,858 | - | 42,580,858 | - | 42,580,858 |
| Accounts and notes receivable | 7 | 466,209,794 | - | 466,209,794 | - | 466,209,794 |
| Investment in asset-backed securities | 8 | <u>69,481,753</u> | - | <u>89,249,759</u> | - | <u>89,249,759</u> |
| | | <u>704,910,103</u> | <u>6,228,280</u> | <u>718,449,829</u> | - | <u>724,678,109</u> |
| Financial Liabilities measured at: | | | | | | |
| Amortized cost | | | | | | |
| Bank overdrafts and short term facilities | 13 | 556,035,429 | - | 556,509,384 | - | 556,509,384 |
| Accounts payable and other liabilities | 14 | 41,610,423 | - | 41,610,423 | - | 41,610,423 |
| Dividends payable | 15 | 61,245,107 | - | 61,245,107 | - | 61,245,107 |
| Deferred revenues and other credit balances | 16 | 87,978,003 | - | 87,978,003 | - | 87,978,003 |
| Term bank loans | 17 | <u>126,951,174</u> | - | <u>126,951,174</u> | - | <u>126,951,174</u> |
| | | <u>873,820,136</u> | - | <u>874,294,091</u> | - | <u>874,294,091</u> |
| Non-financial Assets measured at: | | | | | | |
| Cost | | | | | | |
| Investment properties | 10 | <u>593,436,775</u> | - | <u>1,368,520,209</u> | - | <u>1,368,520,209</u> |
| | | <u>593,436,775</u> | - | <u>1,368,520,209</u> | - | <u>1,368,520,209</u> |

| | | December 31, 2014 | | | | |
|---|----------------------------|--------------------|-------------------|----------------------|---------------|----------------------|
| Notes | Carrying Amount US\$ | Fair Value | | | Total US\$ | |
| | | Level 1 US\$ | Level 2 US\$ | Level 3 US\$ | | |
| Financial Assets measured at: | | | | | | |
| Amortized cost | | | | | | |
| | 5 | 147,205,887 | 26,884,983 | 120,320,904 | - | 147,205,887 |
| | 6 | 39,816,942 | - | 39,816,942 | - | 39,816,942 |
| | 7 | 552,290,794 | - | 552,290,794 | - | 552,290,794 |
| | 8 | <u>72,768,003</u> | - | <u>84,427,936</u> | - | <u>84,427,936</u> |
| | | <u>812,081,626</u> | <u>26,884,983</u> | <u>796,856,576</u> | <u>-</u> | <u>823,741,559</u> |
| Financial Liabilities measured at: | | | | | | |
| Amortized cost | | | | | | |
| | 13 | 546,577,000 | - | 546,524,212 | - | 546,524,212 |
| | 14 | 39,685,220 | - | 39,685,220 | - | 39,685,220 |
| | 15 | 63,681,032 | - | 63,681,032 | - | 63,681,032 |
| | 16 | 54,916,386 | - | 54,916,386 | - | 54,916,386 |
| | 17 | <u>102,602,265</u> | - | <u>102,602,265</u> | - | <u>102,602,265</u> |
| | | <u>807,461,903</u> | <u>-</u> | <u>807,409,115</u> | <u>-</u> | <u>807,409,115</u> |
| Non-financial Assets measured at: | | | | | | |
| Cost | | | | | | |
| | 10 | <u>578,860,903</u> | <u>-</u> | <u>1,431,625,892</u> | <u>-</u> | <u>1,431,625,892</u> |

The fair value of financial assets and financial liabilities was determined using the discounted cash flow method based on a discount rate equivalent to the market interest rate.

The fair value of the investment properties was estimated by management based on market comparability approach.

There have been no transfers between Level 1 and Level 2 during the period.

36. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the financial statements for the year ended December 31, 2015 on April 27, 2016.