

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

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

THE LEBANESE COMPANY FOR THE DEVELOPMENT
AND RECONSTRUCTION OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
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 consolidated financial statements of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. (the Company) and its Subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss, 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 and fair presentation 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.

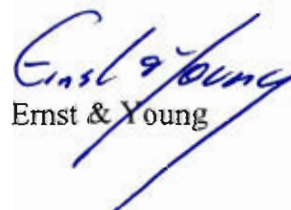
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. and its Subsidiaries (the Group) as of December 31, 2015, and of its consolidated financial performance and consolidated 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.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| <u>ASSETS</u> | <u>Notes</u> | <u>December 31,</u> | |
|---|--------------|----------------------|----------------------|
| | | <u>2015</u> | <u>2014</u> |
| | | <u>US\$</u> | <u>US\$</u> |
| Cash and bank balances | 6 | 136,209,358 | 158,705,194 |
| Prepayments and other debit balances | 7 | 51,853,137 | 43,261,042 |
| Accounts and notes receivable, net | 8 | 466,209,794 | 552,290,794 |
| Investment in asset-backed securities | 9 | 69,481,753 | 72,768,003 |
| Inventory of land and projects in progress | 10 | 1,134,114,848 | 1,128,277,351 |
| Investment properties, net | 11 | 593,436,775 | 578,860,903 |
| Investment in associates and joint ventures | 12 | 407,632,317 | 374,900,423 |
| Fixed assets, net | 13 | <u>58,562,126</u> | <u>55,022,732</u> |
| Total Assets | | <u>2,917,500,108</u> | <u>2,964,086,442</u> |
| <u>LIABILITIES</u> | | | |
| Bank overdrafts and short term facilities | 14 | 556,042,962 | 548,575,050 |
| Accounts payable and other liabilities | 15 | 111,621,702 | 111,491,349 |
| Dividends payable | 16 | 61,245,107 | 63,681,032 |
| Deferred revenues and other credit balances | 17 | 98,728,003 | 65,666,386 |
| Term bank loans | 18 | <u>132,371,974</u> | <u>110,080,567</u> |
| Total Liabilities | | <u>960,009,748</u> | <u>899,494,384</u> |
| <u>EQUITY</u> | | | |
| Issued capital at par value | | | |
| US\$10 per share: | 19 | | |
| 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 | 20 | 164,070,347 | 164,070,347 |
| Retained earnings | | 197,408,966 | 337,497,132 |
| Cumulative foreign currency translation reserve | | (440,731) | (318,337) |
| Deficit on treasury shares' activity | | (21,382,494) | (2,446,798) |
| Less: Treasury shares | 21 | <u>(32,165,728)</u> | <u>(84,210,286)</u> |
| Total Equity | | <u>1,957,490,360</u> | <u>2,064,592,058</u> |
| Total Liabilities and Shareholders' Equity | | <u>2,917,500,108</u> | <u>2,964,086,442</u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | <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 | 22 | 6,986,779 | 6,075,729 |
| Revenues from hospitality | | 539,864 | 1,987,400 |
| Total revenues | | <u>91,301,284</u> | <u>239,014,977</u> |
| Cost of land sales | | (6,987,900) | (28,417,648) |
| Depreciation of and charges on rented properties | 23 | (25,698,051) | (25,491,359) |
| Cost of rendered services | 24 | (5,590,618) | (5,210,236) |
| Cost of hospitality | | (841,126) | (3,804,210) |
| Total cost of revenues | | <u>(39,117,695)</u> | <u>(62,923,453)</u> |
| Gain on sale and disposal of investment properties | 11 | <u>3,177,153</u> | <u>4,504,635</u> |
| Net revenues from operations | | 55,360,742 | 180,596,159 |
| Share of results of associates and joint ventures | 12 | 27,879,222 | 18,754,500 |
| General and administrative expenses | 25 | (33,874,307) | (34,312,427) |
| Depreciation of fixed assets | 13 | (4,482,266) | (5,821,948) |
| Write-back of provision for end-of-service indemnity | 15(d) | - | 3,475,544 |
| Write-off of receivables | 8 | (4,778,425) | (3,188,017) |
| Loss on rescheduled receivables | 8 | (2,553,157) | (5,925,711) |
| Provision for contingencies | 15(e) | (7,562,022) | (800,000) |
| Provision for impairment of fixed assets | 13 | (1,149,677) | (3,927,655) |
| Provision for impairment | 8(d,e) | (104,200,743) | - |
| Provision for impairment of other debit balances | 7(d) | - | (2,100,000) |
| Other expense | 27 | (771,658) | (352,769) |
| Other income | 28 | 4,663,240 | 700,273 |
| Taxes, fees and stamps | 15(c) | (540,869) | (596,438) |
| Interest income | 26 | 19,346,706 | 19,693,391 |
| Interest expense | 29 | (34,840,738) | (34,046,101) |
| Loss on exchange | | (991,970) | (1,125,424) |
| Profit before tax | | (88,495,922) | 131,023,377 |
| Income tax benefit/(expense) | 15(c) | <u>1,283,167</u> | <u>(17,319,627)</u> |
| Profit for the year | | <u>(87,212,755)</u> | <u>113,703,750</u> |
| Basic/diluted earnings per share | 30 | <u>(0.53)</u> | <u>0.71</u> |
| Attributable to: | | | |
| Equity owners of the parent | | (87,212,755) | 113,703,750 |
| Profit for the year | | <u>(87,212,755)</u> | <u>113,703,750</u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

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

| | Year Ended December 31, | |
|---|------------------------------------|---------------------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| (Loss)/profit for the year | (87,212,755) | <u>113,703,750</u> |
| Other comprehensive income: | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> | | |
| Foreign currency translation reserve | (122,394) | <u>58,946</u> |
| Other comprehensive (loss)/income for the year | (122,394) | <u>58,946</u> |
| Total comprehensive (loss)/income | <u>(87,335,149)</u> | <u><u>113,762,696</u></u> |
| Attributable to: | | |
| Equity owners of the parent | (87,335,149) | <u>113,762,696</u> |
| | <u>(87,335,149)</u> | <u><u>113,762,696</u></u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

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

| | Total Equity Attributable to Owners of the Parent | | | | | | | | |
|---|---|--------------------------|------------------------------|---|--------------------------------------|----------------------------|---------------|-------------------------------------|---------------|
| | Share Capital US\$ | Legal Reserve US\$ | Retained Earnings US\$ | Cumulative Foreign Currency Translation Reserve US\$ | Treasury Shares' Activity US\$ | Treasury Shares US\$ | Total US\$ | Non-Controlling Interest US\$ | Total US\$ |
| Balance at January 1, 2014 | 1,650,000,000 | 154,380,009 | 234,569,452 | (377,283) | (2,446,798) | (84,210,286) | 1,951,915,094 | (1,085,732) | 1,950,829,362 |
| Allocation to legal reserve from 2014 profit | - | 9,690,338 | (9,690,338) | - | - | - | - | - | - |
| Total comprehensive income for the year 2014 | - | - | 113,703,750 | 58,946 | - | - | 113,762,696 | - | 113,762,696 |
| Acquisition of additional stake in consolidated subsidiaries | - | - | (1,085,732) | - | - | - | (1,085,732) | 1,085,732 | - |
| Balance at December 31, 2014 | 1,650,000,000 | 164,070,347 | 337,497,132 | (318,337) | (2,446,798) | (84,210,286) | 2,064,592,058 | - | 2,064,592,058 |
| Distribution of dividends (Notes 16 and 21) | - | - | (52,875,411) | - | (18,935,696) | 52,044,558 | (19,766,549) | - | (19,766,549) |
| Total comprehensive loss for the year 2015 | - | - | (87,212,755) | (122,394) | - | - | (87,335,149) | - | (87,335,149) |
| Balance at December 31, 2015 | 1,650,000,000 | 164,070,347 | 197,408,966 | (440,731) | (21,382,494) | (32,165,728) | 1,957,490,360 | - | 1,957,490,360 |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

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

| | Notes | Year Ended | |
|---|---------|-----------------------|----------------------|
| | | December 31, | |
| | | 2015 | 2014 |
| | | US\$ | US\$ |
| Cash flows provided by operating activities: | | | |
| Profit for the year before income tax | | (88,495,922) | 131,023,377 |
| Adjustments to reconcile profit to net cash provided by operating activities: | | | |
| Depreciation | 31(a) | 17,373,396 | 17,304,267 |
| Gain on sale of investment properties | 11 | (3,177,153) | (4,504,635) |
| Loss on sale of fixed assets | 27 | 370,178 | 158,838 |
| Provision for end-of-service net indemnity | 15(d) | 3,130,563 | 819,528 |
| Provision for contingencies | 15(e) | 7,562,022 | 800,000 |
| Provision for impairment of fixed assets | 13 | 1,149,677 | 3,927,655 |
| Write-back of provision for end-of-service indemnity | 15 (d) | - | (3,475,544) |
| Provision for impairment | 8 (d,e) | 104,200,743 | - |
| Provision for impairment of other debit balances | 7(d) | - | 2,100,000 |
| Write-off of receivables | 8 | 4,778,425 | 3,188,017 |
| Loss on rescheduled receivables | 8 | 2,553,157 | 5,925,711 |
| Share of result of associates and joint ventures | 12 | (27,879,222) | (18,754,500) |
| Interest income | 26 | (19,346,706) | (19,693,391) |
| Interest expense | 31(b) | 36,602,101 | 35,140,030 |
| Changes in working capital: | | | |
| Prepayments and other debit balances | | (3,277,094) | 17,202,949 |
| Accounts and notes receivable | | (25,451,325) | (123,820,895) |
| Inventory of land and projects in progress | 31(c) | (44,712,547) | (11,762,097) |
| Accounts payable and other liabilities | | 6,819,250 | (14,768,052) |
| Deferred revenues and other credit balances | | 33,061,617 | 7,029,859 |
| Interest received | | 13,924,000 | 10,588,519 |
| Income tax paid | | (15,746,906) | (6,061,382) |
| Net cash provided by operating activities | | <u>3,438,254</u> | <u>32,368,254</u> |
| Cash flows provided by/(used in) investing activities: | | | |
| Investment in asset-backed securities | | 3,286,250 | 7,833,123 |
| Short term deposits | | - | 2,000,000 |
| Acquisition of fixed assets | 13 | (870,504) | (1,031,420) |
| Acquisition of investment properties | 11&31 | (391,876) | (1,507,148) |
| Proceeds from sale of investment properties | 11 | 5,590,532 | 6,416,040 |
| Proceeds from sale of fixed assets | 13 | 715,535 | 196,141 |
| Investment in associates and joint ventures | 12 | (4,975,125) | - |
| Net cash provided by investing activities | | <u>3,354,812</u> | <u>13,906,736</u> |
| Cash flows used in financing activities: | | | |
| Term bank loans | 18 | 22,291,407 | (23,144,375) |
| Dividends paid | 16 | (22,202,474) | (2,804,343) |
| Interest paid | | (36,845,747) | (32,100,407) |
| Short term facilities | 14 | (1,254) | (12,020,416) |
| Net cash used in financing activities | | <u>(36,758,068)</u> | <u>(70,069,541)</u> |
| Net change in cash and cash equivalents | | (29,965,002) | (23,794,551) |
| Cash and cash equivalents -- Beginning of the year | 31(f) | (78,871,508) | (55,076,957) |
| Cash and cash equivalents -- End of the year | 31(f) | <u>(108,836,510)</u> | <u>(78,871,508)</u> |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS

**THE LEBANESE COMPANY FOR THE DEVELOPMENT AND RECONSTRUCTION
OF BEIRUT CENTRAL DISTRICT S.A.L.
NOTES TO THE CONSOLIDATED 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 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 consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated 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 Group has applied these amendments for the first time in these consolidated 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.

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 Group has applied these amendments for the first time in these consolidated 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 did not have a significant impact on the Group's consolidated financial position or performance.

2.2 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 |
| 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 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.

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 Group'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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

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

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of available-for-sale financial assets and derivatives, as applicable.

The consolidated financial statements incorporate the financial statements of The Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L. and its controlled subsidiaries drawn up to December 31 of each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- 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.

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

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Group entities comprise the following:

| <u>Company</u> | <u>Ownership Share</u> <u>2015 and 2014</u> % | <u>Date of Establishment</u> | <u>Activity</u> |
|--|---|------------------------------|------------------------|
| Solidere Management Services S.A.L. | 100 | June 2006 | Real Estate Management |
| Solidere Management Services (Offshore) S.A.L. | 100 | March 2007 | Real Estate Management |
| Solidere International Holdings S.A.L. | 100 | May 2007 | Holding |
| BHC Holding S.A.L. | 100 | March 2010 | Holding |
| BHC1 S.A.L. | 100 | April 28, 2010 | Hospitality |
| BHC2 S.A.L. | 100 | April 28, 2010 | Hospitality |
| BHC3 S.A.L. | 100 | May 28, 2010 | Hospitality |
| BHC4 S.A.L. | 100 | April 28, 2010 | Hospitality |
| BHC5 S.A.L. | 100 | April 28, 2010 | Hospitality |
| BHC6 S.A.L. | 100 | April 28, 2010 | Hospitality |
| BHC7 S.A.L. | 100 | July 3, 2010 | Hospitality |
| BHC9 S.A.L. | 100 | June 28, 2010 | Hospitality |
| MATS S.A.L. | 100 | June 22, 2010 | Hospitality |

The significant accounting policies adopted are set out below:

A. Basis of Presentation:

In view of the long term nature and particulars of the Group's operations, the consolidated financial statements are presented on the basis that the operations have realization and liquidation periods spread over the duration of the Group and which are subject to market conditions and other factors commonly associated with real estate development projects; as such, the consolidated 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. Dollar, in accordance with the applicable law, which reflects the economic substance of the underlying events and circumstances of the Group. Transactions denominated in other currencies are translated into U.S. Dollar 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 translated at the rates of exchange prevailing at the end of the year. The resulting exchange gain or loss is reflected in the consolidated statement of profit or loss. 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 Group's consolidated statement of financial position when the Group 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 Group 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 from the Group's own equity instruments; it is a non-derivative that includes no contractual obligation for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group 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 Group 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 Group 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 profit or loss 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 Group 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 consolidated 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 consolidated statement of profit or loss.

If the Group 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 consolidated 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 consolidated financial statements on a recurring basis, the Group 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 Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of 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 Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 the consolidated statement of profit or loss.

Offsetting:

Financial assets and financial liabilities are only offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and the Group 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(M).

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 their 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 consolidated statement of 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. Investment in Associates and Joint Ventures:

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

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.

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

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of associates or joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of results of associates and joint ventures' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

G. 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 | 8-20% |
| Freehold improvements | 8-20% |
| 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 consolidated statement of profit or loss as the expense is incurred.

H. Impairment of Tangible Assets:

At each consolidated 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 the consolidated statement of 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 consolidated statement of profit or loss.

I. 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 Group'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.

J. 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 Group's receivable is not subject to future subordination.
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and the Group 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 consolidated statement of financial position date.

Revenue from hospitality consists mainly of food and beverage revenue, and is recognized when the related services are provided.

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

K. Cost of 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 arrived at by dividing, total estimated cost of the land development project over total available BUA after deduction of the BUA relating to recuperated properties and those relating to the religious and public administrations.

L. 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.

M. Borrowing Costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, and inventory of land and projects in progress, and investing of land and projects in process, 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 consolidated statement of profit or loss in the period in which they are incurred.

N. 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.

O. 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 consolidated 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.

P. Taxation:

Current Tax

Income tax is determined and provided for in accordance with the Lebanese tax laws. Income tax expense is calculated based on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss 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 Group's liability for current tax is calculated using tax rates enacted at the consolidated statement of financial position date. Provision for income tax is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the consolidated statement of financial position date 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 consolidated statement of financial position date.

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 consolidated statement of financial position 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.

Q. Provisions:

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, 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.

R. Employees' End-of-Service Benefits:

The Group provides end-of-service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

S. Earnings per Share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

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 Group.

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 Group is the determination of the aggregate cost of the Beirut Central District Project.

GOING CONCERN

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore the consolidated 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 consolidated statement of profit or loss.

IMPAIRMENT OF INVESTMENT IN JOINT VENTURES AND ASSOCIATES

The Group assesses at each reporting date whether there is indication that an investment may be impaired. If any indication exists the Group 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 consolidated statement of profit or loss.

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 Group, based on comparable transactions identified by the Group for properties in the same geographical market serving the same real estate segment. NRV in respect of inventory property under construction 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. OPERATING SEGMENTS

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

- Real estate sales
- Real estate rental and rendered services
- Hospitality

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 consolidated financial statements.

2015

| | Real Estate Rental and Rendered Services US\$ | Hospitality US\$ | Eliminations US\$ | Total US\$ | |
|-------------------|---|---------------------|----------------------|---------------|---------------|
| Total assets | 2,376,372,760 | 635,404,219 | 4,933,428 | (99,210,299) | 2,917,500,108 |
| Total liabilities | 752,870,378 | 209,081,141 | 34,022,649 | (35,964,420) | 960,009,748 |

2015

| | Real Estate Rental and Rendered Services US\$ | Hospitality US\$ | Eliminations US\$ | Total US\$ | |
|--|---|---------------------|----------------------|---------------|----------------|
| Revenues | 26,801,762 | 65,541,296 | 539,864 | (1,581,638) | 91,301,284 |
| Cost of revenues | (6,987,900) | (34,451,587) | (841,126) | 3,162,918 | (39,117,695) |
| Gain on sale and disposal of investment Prop0erties | - | 3,177,153 | - | - | 3,177,153 |
| Net revenues from operations | 19,813,862 | 34,266,862 | (301,262) | 1,581,280 | 55,360,742 |
| Share of results of associates and joint ventures | - | 27,879,222 | - | - | 27,879,222 |
| General and administrative expenses | (27,832,112) | (4,289,516) | (171,399) | (1,581,280) | (33,874,307) |
| Depreciation of fixed assets | (3,298,902) | (375,166) | (808,198) | - | (4,482,266) |
| Write-off of receivables | (4,778,425) | - | - | - | (4,778,425) |
| Loss on rescheduled receivables | (2,553,157) | - | - | - | (2,553,157) |
| Provision for contingencies | (7,500,000) | (62,022) | - | - | (7,562,022) |
| Provision for impairment of fixed assets | - | - | (1,149,677) | - | (1,149,677) |
| Provision for impairment | (93,450,743) | (10,750,000) | - | - | (104,200,743) |
| Other expense | (350,000) | - | (421,658) | - | (771,658) |
| Other income | 4,592,817 | - | 70,423 | - | 4,663,240 |
| Taxes, fees and stamps | (521,696) | (12,285) | (6,888) | - | (540,869) |
| Interest income | 19,152,435 | 190,634 | 3,637 | - | 19,346,706 |
| Interest expense | (34,323,964) | (17,739) | (499,035) | - | (34,840,738) |
| Loss on exchange | (986,625) | (1,001) | (4,344) | - | (991,970) |
| Profit/(loss) before tax | (132,036,510) | 46,828,989 | (3,288,401) | - | (88,495,922) |
| Income tax benefit | 1,283,167 | - | - | - | 1,283,167 |
| Profit/(loss) for the year | (130,753,343) | 46,828,989 | (3,288,401) | - | (87,212,755) |

2014

| | <u>Real Estate Sales</u> US\$ | <u>Real Estate Rental and Rendered Services</u> US\$ | <u>Hospitality</u> US\$ | <u>Eliminations</u> US\$ | <u>Total</u> US\$ |
|-------------------|----------------------------------|---|----------------------------|-----------------------------|----------------------|
| Total assets | 2,461,974,432 | 627,413,455 | 6,967,784 | (132,269,229) | 2,964,086,442 |
| Total liabilities | 705,284,557 | 192,003,931 | 32,812,900 | (30,607,004) | 899,494,384 |

2014

| | <u>Real Estate Sales</u> US\$ | <u>Real Estate Rental and Rendered Services</u> US\$ | <u>Hospitality</u> US\$ | <u>Eliminations</u> US\$ | <u>Total</u> US\$ |
|--|----------------------------------|---|----------------------------|-----------------------------|----------------------|
| Revenues | 169,473,806 | 69,053,771 | 1,987,400 | (1,500,000) | 239,014,977 |
| Cost of revenues | (28,417,648) | (33,701,595) | (3,804,210) | 3,000,000 | (62,923,453) |
| Gain on sale and disposal of investment properties | - | 4,504,635 | - | - | 4,504,635 |
| Net revenues from operations | 141,056,158 | 39,856,811 | (1,816,810) | 1,500,000 | 180,596,159 |
| Share of results of associates and joint ventures | - | 18,754,500 | - | - | 18,754,500 |
| General and administrative expenses | (28,034,549) | (4,407,833) | (370,045) | (1,500,000) | (34,312,427) |
| Depreciation of fixed assets | (3,263,006) | 362,556) | (2,196,386) | - | (5,821,948) |
| Loss on rescheduled receivables | (5,925,711) | - | - | - | (5,925,711) |
| Loss on exchange | (1,122,630) | (2,285) | (509) | - | (1,125,424) |
| Provision for impairment of fixed assets | - | - | (3,927,655) | - | (3,927,655) |
| Write-back of provision for end-of-service indemnity | 3,475,544 | - | - | - | 3,475,544 |
| Provision for impairment of 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) |
| Other expense | (71,225) | - | (281,544) | - | (352,769) |
| Other income | 435,742 | - | 264,531 | - | 700,273 |
| Taxes, fees and stamps | (577,126) | (15,194) | (4,118) | - | (596,438) |
| Interest income | 19,438,773 | 250,625 | 3,993 | - | 19,693,391 |
| Interest expense | (33,307,165) | (17,999) | (720,937) | - | (34,046,101) |
| Profit/(loss) before tax | 91,304,805 | 48,768,052 | (9,049,480) | - | 131,023,377 |
| Income tax expense | (17,319,627) | - | - | - | (17,319,627) |
| Profit/(loss) for the year | 73,985,178 | 48,768,052 | (9,049,480) | - | 113,703,750 |

6. CASH AND BANK BALANCES

| | <u>December 31,</u> | |
|-------------------------|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Cash on hand | 54,098 | 58,491 |
| Checks under collection | 6,197,926 | 26,844,731 |
| Current accounts | 11,896,267 | 15,225,943 |
| Short term deposits | <u>118,061,067</u> | <u>116,576,029</u> |
| | <u>136,209,358</u> | <u>158,705,194</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).

7. 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 | 2,665,245 | 2,772,721 |
| Accrued interest income (a) | 24,367,905 | 18,945,200 |
| Prepaid expenses | 7,237,578 | 7,018,916 |
| Deferred tax assets (b) | 3,112,500 | 1,612,500 |
| Due from associates, joint ventures and related parties (c) | 4,065,353 | 4,796,853 |
| Other debit balances, (net) (d) | <u>8,742,345</u> | <u>4,331,368</u> |
| | <u>51,853,137</u> | <u>43,261,042</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 9) | 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 12 (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 12(a)) | 1,612,500 | 1,612,500 |
| Deferred tax asset on carry forward taxable losses (Note 15(c)) | <u>1,500,000</u> | <u>-</u> |
| | <u>3,112,500</u> | <u>1,612,500</u> |

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

| | <u>December 31,</u> | |
|--|---------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Solidere International Limited (Associate) | 856,558 | 662,147 |
| City Makers S.A.R.L (Related party) | 64,640 | 66,481 |
| BCD Cinemas S.A.L. (Associate) | 3,021,568 | 3,942,331 |
| Beirut Real Estate Management and Services S.A.L. (Joint venture) | 3,394 | 3,394 |
| ASB – Downtown S.A.L. (Associate) | <u>119,193</u> | <u>122,500</u> |
| | <u>4,065,353</u> | <u>4,796,853</u> |

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

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

8. ACCOUNTS AND NOTES RECEIVABLE, NET

| | <u>December 31,</u> | |
|---|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | 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 9) | 7,350,579 | 7,350,579 |
| Deferred charges from securitization of notes (Note 9) | 4,928,469 | 4,928,469 |
| Receivables 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 Group'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 Group'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:

| | <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 | 390,937,903 | 406,467,898 |
| | <u>604,952,289</u> | <u>594,143,809</u> |

During 2015, the Group 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 consolidated 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 consolidated statement of profit or loss 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 Group wrote-off doubtful receivables from tenants in the amount of US\$4,778,425 recorded under "Write-off of receivables" in the consolidated statement of profit or loss (US\$3,188,017 during the year 2014).

- (d) The movement of 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 Group setup provision in the amount of US\$11,000,000 for collectively assessed receivables (US\$ Nil in 2014).

9. INVESTMENT IN ASSET-BACKED SECURITIES

During 2013, the Group 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 Group collected an amount of US\$93,821,227, net of reserve account and transaction costs.

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

| Class of Notes | Total Issuance US\$ | Subscription Amount US\$ | Carrying Amount December 31, | | Interest Rate % |
|------------------------|---------------------------|--------------------------------|---------------------------------|-------------------|-----------------------|
| | | | 2015 | 2014 | |
| | | | 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 were 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 Group 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 Group 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 8).

The movement of the reserve account receivable from BCD 1 Fund presented under accounts receivable (Note 8), is as follows:

| | <u>2015</u> US\$ | <u>2014</u> 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> |

10. INVENTORY OF LAND AND PROJECTS IN PROGRESS

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

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

| | <u>December 31,</u> | |
|---|----------------------|---------------------|
| | <u>2015</u> US\$ | <u>2014</u> 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) | 94,631,155 | 89,103,523 |
| 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 10 (b)) | (153,580,873) | (152,506,077) |
| <u>Less:</u> Cost of infrastructure transferred to real estate development projects | (6,353,121) | (6,353,121) |
| | <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 Group.
- (a.3) Infrastructure costs consists of the following:

| | <u>December 31,</u> | |
|---|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | 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 29) | 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 25).

(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 10 (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 13) | (29,815,565) | (29,659,018) |
| Cost of real estate sold | <u>(44,164,255)</u> | <u>(44,164,255)</u> |
| | <u>118,649,414</u> | <u>138,430,875</u> |

During 2015, the Group 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 11).

During 2015, the Group allocated interest expense to real estate development projects in the amount of US\$734,537 (US\$865,919 during 2014) (Note 29).

11. INVESTMENT PROPERTIES, NET

| | <u>Balances as at,</u> <u>December 31,</u> <u>2014</u> | <u>Additions</u> | <u>Transfers</u> <u>from/to</u> <u>Fixed Assets</u> | <u>Transfers</u> <u>from/to</u> <u>Projects</u> | <u>Disposals</u> <u>and Sales</u> | <u>Balance as at</u> <u>December 31,</u> <u>2015</u> |
|----------------------------------|--|-------------------|---|---|--------------------------------------|--|
| | 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 | <u>36,588,661</u> | <u>283,980</u> | <u>(487,924)</u> | - | - | <u>36,384,717</u> |
| | <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 | <u>12,885,494</u> | <u>2,349,225</u> | - | - | - | <u>15,234,719</u> |
| | <u>70,798,196</u> | <u>12,891,130</u> | <u>(1,182,397)</u> | - | <u>(305,030)</u> | <u>82,201,899</u> |
| Net Book Value | <u>578,860,903</u> | | | | | <u>593,436,775</u> |

| | <u>Balances as at, December 31, 2013</u> | <u>Additions</u> | <u>Transfers from/to Fixed Assets</u> | <u>Transfers from/to Projects</u> | <u>Disposals and Sales</u> | <u>Balance as at December 31, 2014</u> |
|----------------------------------|--|-------------------|---|---|--------------------------------|--|
| | 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 | <u>36,309,109</u> | <u>279,552</u> | - | - | - | <u>36,588,661</u> |
| | <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 | <u>10,907,615</u> | <u>1,977,879</u> | - | - | - | <u>12,885,494</u> |
| | <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 consolidated statement of profit or loss 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 “Depreciation of and charges on rented properties” in the consolidated statement of profit or loss (Note 23).

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 capitalization approach estimated by management).

The Group classifies investment properties within level 2 in the hierarchy of fair value measurement (Note 37).

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

| | December 31, | |
|--|--------------------|--------------------|
| | 2015 US\$ | 2014 US\$ |
| Investment in Solidere International Limited (Associate) (a) | 367,081,992 | 343,550,472 |
| Investment in BCD Cinemas S.A.L. (Associate) | 145,084 | (311,896) |
| Investment in Beirut Waterfront Development S.A.L. (Joint venture) | 3,822,172 | (4,924,547) |
| Investment in Beirut Real Estate Management and Services S.A.L. (Joint venture) | 38,192 | 41,517 |
| Investment in ASB – Downtown S.A.L. (Associate) | 4,877 | 4,877 |
| | <u>371,092,317</u> | <u>338,360,423</u> |
| Long term loan to Beirut Waterfront Development S.A.L. (Joint venture) | 36,540,000 | 36,540,000 |
| | <u>407,632,317</u> | <u>374,900,423</u> |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Balance at the beginning of the year | 374,900,423 | 356,086,977 |
| Share of capital increase | 4,975,125 | - |
| Share of results of associates and joint ventures | 27,879,222 | 18,754,500 |
| Foreign currency translation reserve | (122,453) | 58,946 |
| Balance at the end of the year | <u>407,632,317</u> | <u>374,900,423</u> |

Details of the Group's investment in associates and joint ventures are as follows:

| | Country of Incorporation | Ownership Interest % | December 31, | | | |
|--|-----------------------------|----------------------------|--------------------|------------------------------------|--------------------|------------------------------------|
| | | | 2015 | | 2014 | |
| | | | At Cost US\$ | Group's Share of Equity US\$ | At Cost US\$ | Group's Share of Equity US\$ |
| Solidere International Limited (Associate) | UAE | 39.05 | 237,789,902 | 367,081,992 | 237,789,902 | 343,550,472 |
| BCD Cinemas S.A.L. (Associate) | Lebanon | 40.00 | 8,000 | 145,084 | 8,000 | (311,896) |
| Beirut Waterfront Development S.A.L. (a) (Joint venture) | Lebanon | 50.00 | 11,385,075 | 3,822,172 | 6,409,950 | (4,924,547) |
| Beirut Real Estate Management and Services (Joint venture) | Lebanon | 45.00 | 9,000 | 38,192 | 9,000 | 41,517 |
| ASB - Downtown S.A.L. (Associate) | Lebanon | 24.50 | 4,877 | 4,877 | 4,877 | 4,877 |
| | | | <u>249,196,854</u> | <u>371,092,317</u> | <u>244,221,729</u> | <u>338,360,423</u> |

- (a) The Group 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 Group'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 Group 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 Group 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 consolidated statement of financial position, to be realized after realization of the sale of the properties to third parties (Note 17).

On June 27, 2006, the Group granted Beirut Waterfront Development S.A.L. a long term loan against issuance of bonds for a total amount of US\$25.2million. The 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 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 consolidated statement of financial position (Note 17) 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 7 (a)). The deferred interest will be realized when income from the principal activity of the joint venture is realized.

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.

Summarized financial information in respect of the Group's associates and joint ventures is set out below:

| | 2015 | | | |
|------------------------------------|---|--|--|--------------------|
| | Solidere International Limited | Beirut Waterfront Development SAL | Other associates and joint ventures | Total |
| | US\$ | US\$ | US\$ | US\$ |
| Total Assets | 1,049,547,675 | 197,465,224 | 9,836,471 | 1,256,849,370 |
| Total Liabilities | 47,008,418 | 189,820,881 | 9,387,958 | 246,217,257 |
| Non-Controlling Interest | 62,462,808 | - | - | 62,462,808 |
| Net Assets | 940,076,449 | 7,644,343 | 448,513 | 948,169,305 |
| Group's share of net assets | 367,081,992 | 3,822,172 | 188,154 | 371,092,318 |
| Total Revenue | 9,461,114 | 44,094,990 | 9,144,712 | 62,700,816 |
| Total Cost of Revenue | (5,132,904) | (23,076,250) | (8,277,521) | (36,486,675) |
| Profit/(loss) for the year | 62,181,987 | 7,260,783 | 866,089 | 70,308,859 |
| Group's share of results | 23,653,913 | 3,630,391 | 594,918 | 27,879,222 |
| | 2014 | | | |
| | Solidere International Limited | Beirut Waterfront Development SAL | Other associates and joint ventures | Total |
| | US\$ | US\$ | US\$ | US\$ |
| Total Assets | 988,495,468 | 213,038,606 | 9,699,017 | 1,211,233,091 |
| Total Liabilities | 47,824,752 | 222,887,699 | 10,386,494 | 281,098,945 |
| Non-Controlling Interest | 60,857,169 | - | - | 60,857,169 |
| Net Assets | 879,813,547 | (9,849,093) | (687,477) | 869,276,977 |
| Group's share of net assets | 343,550,472 | (4,924,547) | (265,502) | 338,360,423 |
| Total Revenue | 10,503,464 | 9,301,520 | 6,824,523 | 26,629,507 |
| Total Cost of Revenue | (6,418,991) | (9,897,471) | (2,722,927) | (19,039,389) |
| Profit/(loss) for the year | 67,150,175 | (12,333,130) | (465,425) | 54,351,620 |
| Group's share of results | 25,106,135 | (6,166,565) | (185,070) | 18,754,500 |

13. FIXED ASSETS, NET

| | Balance as at December 31, 2014 | Additions | Transfers | Disposals/ Write Off | Impairment | Balance as at December 31, 2015 |
|----------------------------------|---------------------------------------|------------------|-------------------|-------------------------|---------------------|---------------------------------------|
| | USD | US\$ | US\$ | US\$ | US\$ | US\$ |
| Cost: | | | | | | |
| Land | 6,172,238 | - | - | - | - | 6,172,238 |
| Buildings | 29,135,253 | 15,612 | 10,081,019 | (1,112,231) | (1,228,299) | 36,891,354 |
| Marina | 7,866,624 | - | - | - | - | 7,866,624 |
| Furniture and fixtures | 10,307,269 | 39,496 | - | (258,094) | 137 | 10,088,808 |
| Freehold improvements | 24,315,737 | 332,000 | 450,763 | (14,519) | (4,258) | 25,079,723 |
| Machines and equipment | 37,059,663 | 483,396 | 37,161 | (114,961) | - | 37,465,259 |
| Advances on fixed assets | - | - | - | (637,421) | 82,743 | (554,678) |
| | <u>114,856,784</u> | <u>870,504</u> | <u>10,568,943</u> | <u>(2,137,226)</u> | <u>(1,149,677)</u> | <u>123,009,328</u> |
| Accumulated Depreciation: | | | | | | |
| Buildings | 9,068,219 | 1,070,182 | 1,182,397 | (496,941) | - | 10,823,857 |
| Marina | 1,336,782 | 157,457 | - | - | - | 1,494,239 |
| Furniture | 4,753,252 | 455,971 | - | (157,032) | - | 5,052,191 |
| Freehold improvements | 9,022,376 | 1,344,818 | - | (6,012) | - | 10,361,182 |
| Machines and equipment | 35,653,423 | 1,453,838 | - | (391,528) | - | 36,715,733 |
| | <u>59,834,052</u> | <u>4,482,266</u> | <u>1,182,397</u> | <u>(1,051,513)</u> | <u>-</u> | <u>64,447,202</u> |
| Net Book Value | <u>55,022,732</u> | | | | | <u>58,562,126</u> |
| | Balance as at December 31, 2013 | Additions | Transfers | Disposals/ Write Off | Impairment | Balance as at December 31, 2014 |
| | USD | US\$ | US\$ | US\$ | US\$ | US\$ |
| Cost: | | | | | | |
| Land | 6,172,238 | - | - | - | - | 6,172,238 |
| Buildings | 29,105,920 | 29,333 | - | - | - | 29,135,253 |
| Marina | 7,866,624 | - | - | - | - | 7,866,624 |
| Furniture and fixtures | 10,632,431 | 42,189 | - | (96,704) | (270,647) | 10,307,269 |
| Freehold improvements | 27,541,480 | 510,052 | - | (498,159) | (3,237,636) | 24,315,737 |
| Machines and equipment | 37,350,780 | 449,846 | - | (321,591) | (419,372) | 37,059,663 |
| Advances on fixed assets | 16,332 | - | - | (16,332) | - | - |
| | <u>118,685,805</u> | <u>1,031,420</u> | <u>-</u> | <u>(932,786)</u> | <u>(3,927,655)</u> | <u>114,856,784</u> |
| Accumulated Depreciation: | | | | | | |
| Buildings | 8,497,781 | 570,438 | - | - | - | 9,068,219 |
| Marina | 1,179,325 | 157,457 | - | - | - | 1,336,782 |
| Furniture | 4,154,518 | 654,938 | - | (56,204) | - | 4,753,252 |
| Freehold improvements | 6,601,945 | 2,583,199 | - | (162,768) | - | 9,022,376 |
| Machines and equipment | 34,156,342 | 1,855,916 | - | (358,835) | - | 35,653,423 |
| | <u>54,589,911</u> | <u>5,821,948</u> | <u>-</u> | <u>(577,807)</u> | <u>-</u> | <u>59,834,052</u> |
| Net Book Value | <u>64,095,894</u> | | | | | <u>55,022,732</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 11), and an amount of US\$156,547 transferred from "Inventory of land and projects in progress" (Note 10 (b)).

During 2015, the Group set up provision for impairment of fixed assets used in the hospitality industry in the amount of US\$1,149,677 (US\$3,927,655 during 2014) recorded in the consolidated statement of profit or loss under "Provision for impairment of fixed assets".

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

14. BANK OVERDRAFTS AND SHORT TERM FACILITIES

| | <u>December 31,</u> | |
|-----------------------|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| Bank overdrafts | 245,045,868 | 237,576,702 |
| Short term facilities | <u>310,997,094</u> | <u>310,998,348</u> |
| | <u>556,042,962</u> | <u>548,575,050</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:

| <u>Facility Amount</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Covenants</u> | <u>Outstanding Balance</u> | |
|----------------------------|--------------------------|--------------------------|------------------|----------------------------|--------------------|
| | | | | <u>December 31,</u> | |
| | | | | <u>2015</u> | <u>2014</u> |
| <u>US\$</u> | | <u>%</u> | | <u>US\$</u> | <u>US\$</u> |
| 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-Jul-16 | 5.625 | (c) | 99,998,150 | 99,998,158 |
| 25,000,000 | 1-Nov-16 | 5.50 | (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 Group maintains a maximum debt to equity ratio and banks' loans of 1:3 and overdrafts and other facilities to equity ratio of 1:4. Furthermore, the covenants of the facilities stipulate that the Group 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 Group 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 Group 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 Group 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 Group maintains a minimum equity balance of US\$1billion, a maximum debt to equity ratio 1.2:1, and minimum equity to asset ratio of 40%.

Interest expense on bank overdrafts for the year ended December 31, 2015 amounted to US\$14,153,021 and is recorded under "Interest expense" in the consolidated statement of profit or loss (US\$13,510,968 for the year ended December 31, 2014) (Note 29).

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 consolidated statement of profit or loss (Note 29).

15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

| | December 31, | |
|---|---------------------|--------------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Accounts payable (a) | 42,603,553 | 39,316,776 |
| Accrued charges and other credit balances (b) | 18,199,224 | 16,574,277 |
| Taxes payable (c) | 21,303,393 | 34,172,845 |
| Provision for end-of-service indemnity (d) | 13,983,613 | 12,118,287 |
| Provision for contingences (e) | 13,727,234 | 7,086,410 |
| Due to a joint venture (f) | 8,473 | 182,896 |
| Loan to a joint venture (g) | 94,164 | 94,164 |
| Accrued interest payable | <u>1,702,048</u> | <u>1,945,694</u> |
| | <u>111,621,702</u> | <u>111,491,349</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 33(f).
- (b) Accrued charges and other credit balances consists of the following:

| | December 31, | |
|------------------------------------|---------------------|-------------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Deposits from tenants | 2,821,214 | 3,012,732 |
| Accrued municipality expenses | 1,502,334 | 1,000,000 |
| Accruals for project cost | 4,982,243 | 1,454,000 |
| Accruals for management benefits | 1,911,946 | 3,148,285 |
| Accruals for utility costs | 1,785,279 | 2,259,333 |
| Accruals for invoices not received | 416,678 | 145,822 |
| Other | <u>4,779,530</u> | <u>5,554,105</u> |
| | <u>18,199,224</u> | <u>16,574,277</u> |

(c) Taxes payable consist of the following:

| | <u>December 31,</u> | |
|-------------------------------|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Accrued income tax | - | 15,746,906 |
| Additional tax assessment | 8,400,000 | 8,400,000 |
| Value added tax (VAT) payable | 4,106,920 | 2,364,234 |
| Taxes withheld | 693,230 | 794,205 |
| Built property tax payable | <u>8,103,243</u> | <u>6,867,500</u> |
| | <u>21,303,393</u> | <u>34,172,845</u> |

Rental income is subject to the built 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 the taxation 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 taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Income tax

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

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 | (88,495,922) | 131,023,377 |
| Add/(Less): Loss/(profit) of subsidiaries | 5,398,594 | (15,300,374) |
| Add: Non-deductible provisions and charges | 96,861,075 | 22,910,599 |
| Add/(less): Rent revenue from built up property (Net) | (24,674,721) | (31,752,218) |
| Taxable (loss)/income | (10,910,974) | 106,881,384 |
| Applicable tax rate | 15% | 15% |
| Accrued income tax | - | 16,032,208 |
| Less: Tax on interest previously settled | (216,833) | (292,597) |
| Accrued income tax payable | - | 15,739,611 |
| Accrued tax on holding and offshore subsidiaries | 7,295 | 7,295 |
| Total | <u>7,295</u> | <u>15,746,906</u> |
| Total accrued income tax | 216,833 | 16,032,208 |
| Add: Reversal of deferred tax assets | - | 1,287,419 |
| (Less): Deferred tax asset – Note 7 (b) | (1,500,000) | - |
| Income tax (benefit)/expense | <u>(1,283,167)</u> | <u>17,319,627</u> |

Additional tax assessment

During 2012, the Group'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 years and recorded under additional tax assessment. During 2013, and following the objection filed by the Group, 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.

The outcome of the tax review of the Group'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 (Note 15 (e)). During January 2016 and as a result of the above, the Group settled an amount of US\$2.6million (LBP3.9billion) on account of the additional tax assessment.

The Group'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 Group'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 tax authorities. Any additional tax liability is subject to the results of this review.

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

| | <u>2015</u> US\$ | <u>2014</u> US\$ |
|--------------------------------------|---------------------|---------------------|
| Balance at the beginning of the year | 12,118,288 | 15,300,220 |
| Additions | 3,130,563 | 819,528 |
| Settlements | (1,265,237) | (525,917) |
| Write-back | - | (3,475,544) |
| Balance at the end of the year | <u>13,983,614</u> | <u>12,118,287</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 | 7,562,022 | 800,000 |
| Settlement | (921,198) | - |
| Balance at the end of the year | <u>13,727,234</u> | <u>7,086,410</u> |

- (f) Due to a joint venture consists of the following:

| | <u>December 31,</u> | |
|--------------------------------------|---------------------|----------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Beirut Waterfront Development S.A.L. | <u>8,473</u> | <u>182,896</u> |
| | <u>8,473</u> | <u>182,896</u> |

The above balance is interest free and is of a current nature.

- (g) During 2013, Beirut Waterfront Development S.A.L., (joint venture), granted the Group a loan in the amount of US\$100,000. This loan bears interest at an annual rate of 8%. The principal of the loan shall be paid through monthly payments representing 2% of Grid Resto restaurant gross sales located in "Zaitounay Bay". Interest expense for the year ended December 31, 2014 amounting to US\$5,770 was recorded under "interest expense" in the consolidated statement of profit or loss and was settled during the same period (Note 29). No payments were made in 2015 (US\$3,371 during 2014) as Grid Resto was closed during 2014.

16. DIVIDENDS PAYABLE

| <u>General Assembly Date</u> | <u>Dividend per Share</u> | <u>Declared</u> | <u>Settled/ Distributed up to December 31, 2015</u> | <u>December 31,</u> | |
|----------------------------------|-------------------------------|----------------------|---|---------------------|-------------------|
| | | | | <u>2015</u> | <u>2014</u> |
| | | | | <u>Payable</u> | <u>Payable</u> |
| | 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 is 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.

17. DEFERRED REVENUES AND OTHER CREDIT BALANCES

| | <u>December 31,</u> | |
|--|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| 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 12 (a)) | 10,750,000 | 10,750,000 |
| Deferred interest revenue on a loan to a joint venture (Note 12 (a)) | <u>26,138,700</u> | <u>22,850,100</u> |
| | <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.

18. TERM BANK LOANS

| <u>Loan Amount</u> | | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Loan Repayment and Covenants</u> | <u>Outstanding Balance December 31,</u> | |
|--------------------|-------------|----------------------|----------------------|-------------------------------------|---|--------------------|
| <u>2015</u> | <u>2014</u> | | | | <u>2015</u> | <u>2014</u> |
| <u>US\$</u> | <u>US\$</u> | | | | <u>US\$</u> | <u>US\$</u> |
| 75,000,000 | 75,000,000 | June 10, 2015 | 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 | 5.50 | (c) | 25,000,000 | 35,000,000 |
| 3,255,000 | 3,255,000 | December 31, 2018 | 6.50 | (d) | 1,952,038 | 2,603,031 |
| 50,000,000 | - | December 31, 2019 | 5.50 | (e) | 49,999,900 | - |
| 9,500,000 | 9,500,000 | September 30, 2017 | 6.50 | (f) | - | 5,795,151 |
| 6,000,000 | 6,000,000 | September 30, 2017 | 4.50 | (g) | - | 1,683,149 |
| 4,756,000 | - | September 30, 2017 | 6.50 | (h) | 3,329,200 | - |
| 2,988,000 | - | September 30, 2017 | 6.50 | (i) | <u>2,091,600</u> | - |
| | | | | | <u>132,371,974</u> | <u>110,080,567</u> |

- (a) The loan will be fully repaid at maturity. The covenants of the loan stipulate that the Group 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 will be through 8 quarterly equal installments of US\$5million each. The loan 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 Group 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 750,000m². 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 Group 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 repayments 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.
- (f) The repayment of the loan will be through 20 equal quarterly installments of US\$475,000 each. An amount of US\$1,900,000 was settled during 2014. The loan was settled during 2015.
- (g) The repayment of the loan will be through 20 equal quarterly installments of US\$140,000 each. An amount of US\$560,000 was settled during 2014. The loan was settled during 2015.
- (h) This loan was used to settle the outstanding balance of an original loan in the amount of US\$9,500,000 from the same bank. The repayment of the loan will be through 10 equal quarterly installments of US\$475,600 each. An amount of US\$1,426,800 was settled during 2015.
- (i) This loan was used to settle outstanding balance of an original loan in the amount of US\$6,000,000 and an overdraft balance outstanding from the same bank. The repayment of the loan will be through 10 equal quarterly installments of US\$298,800 each. An amount of US\$896,400 was settled during 2015.

Term bank loans carry the following maturities:

| | <u>December 31,</u> | |
|------|---------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| 2015 | - | 68,207,567 |
| 2016 | 76,246,774 | 23,111,000 |
| 2017 | 30,474,200 | 18,111,000 |
| 2018 | 13,151,000 | 651,000 |
| 2019 | <u>12,500,000</u> | <u>-</u> |
| | <u>132,371,974</u> | <u>110,080,567</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\$6,007,306 (US\$5,550,288 for the year 2014) and is recorded under "Interest expense" in the consolidated statement of profit or loss (Note 29).

19. 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).

20. 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.

21. 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 Group 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.

22. REVENUES FROM RENDERED SERVICES

| | <u>December 31,</u> | |
|--|---------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| Services rendered to a related party, an associate and a joint venture (Note 32) | 914,480 | 682,551 |
| Services rendered to clients | 2,155,636 | 1,504,307 |
| Broadband network revenues | 3,916,663 | 3,888,871 |
| | <u>6,986,779</u> | <u>6,075,729</u> |

23. DEPRECIATION OF AND CHARGES ON RENTED PROPERTIES

| | <u>Year Ended</u> <u>December 31,</u> | |
|--|--|-------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| Depreciation expense (Note 11) | 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 changes | 7,540,952 | 10,290,214 |
| Recoveries from tenants | (10,355,833) | (10,090,119) |
| | <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 25).

24. COST OF RENDERED SERVICES

| | Year Ended | |
|--|---------------------|------------------|
| | December 31, | |
| | 2015 | 2014 |
| | US\$ | US\$ |
| Cost of services rendered to a related party, an associate and a joint venture (Note 25) | 914,480 | 682,551 |
| Cost of services rendered to clients | 1,576,816 | 1,550,445 |
| Broad band network cost of services rendered | <u>3,099,322</u> | <u>2,977,240</u> |
| | <u>5,590,618</u> | <u>5,210,236</u> |

25. GENERAL AND ADMINISTRATIVE EXPENSES

| | Year Ended | |
|---|---------------------|-------------------|
| | December 31, | |
| | 2015 | 2014 |
| | US\$ | US\$ |
| Salaries, benefits and related charges | 25,578,130 | 27,110,690 |
| Board of directors' remuneration | 300,000 | - |
| Professional services | 1,789,403 | 1,292,376 |
| Promotion and advertising | 888,235 | 740,154 |
| Utilities, office, maintenance and other similar expenses | 3,497,691 | 3,524,869 |
| Travel and accommodation | 585,063 | 624,699 |
| Other expenses | <u>1,235,785</u> | <u>1,019,639</u> |
| | <u>33,874,307</u> | <u>34,312,427</u> |

The Group 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\$9,879,248 during the year ended December 31, 2014) (Note 10).

The Group 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 23).

The Group reallocated salaries, benefits and related charges amounting to US\$983,176 to cost of rendered services during the year ended December 31, 2015 (US\$682,551 during the year ended December 31, 2014) (Note 24).

26. INTEREST INCOME

| | Year Ended December 31, | |
|---|------------------------------------|-------------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Interest income from notes and accounts receivable | 12,721,760 | 13,963,708 |
| Interest income from banks | 4,634,341 | 5,724,897 |
| Interest income from asset-backed securities (Note 9) | 1,990,605 | 1,029,001 |
| Interest derecognized on asset-backed securities (Note 9) | - | (1,024,215) |
| | <u>19,346,706</u> | <u>19,693,391</u> |

27. OTHER EXPENSE

| | Year Ended December 31, | |
|-----------------------------------|------------------------------------|----------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Loss on sale of fixed assets, net | 370,178 | 158,838 |
| Other expenses | 401,480 | 193,931 |
| | <u>771,658</u> | <u>352,769</u> |

28. OTHER INCOME

| | Year Ended December 31, | |
|-----------------------------------|------------------------------------|----------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Income from events and activities | 89,014 | 700,273 |
| Other | 4,574,226 | - |
| | <u>4,663,240</u> | <u>700,273</u> |

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

29. INTEREST EXPENSE

| | Year Ended | |
|--|---------------------|-------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Interest expense on short term facilities (Note 14) | 16,257,889 | 15,357,408 |
| Interest expense on bank overdrafts (Note 14) | 14,153,021 | 13,510,968 |
| Interest expense on term bank loans (Note 18) | 6,007,306 | 5,550,288 |
| Interest expense allocated to infrastructure costs (Note 10 (a.3)) | (1,026,826) | (228,010) |
| Interest expense allocated to real estate development projects (Note 10 (b)) | (734,537) | (865,919) |
| Interest expense on loan from a related party (Note 15 (g)) | - | 5,770 |
| Bank and commission charges | 183,885 | 715,596 |
| | <u>34,840,738</u> | <u>34,046,101</u> |

30. BASIC/DILUTED EARNINGS PER SHARE

The computation of earnings per share is based on net income for the period and the weighted average number of outstanding class (A) and (B) shares during each period net of treasury shares held by the Group.

The weighted average number of shares to compute basic and diluted (loss)/earnings per share is 163,363,878 shares for the year 2015 (160,153,796 shares for the year 2014).

31. 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 13) | 4,482,266 | 5,821,948 |
| Depreciation of investment properties (Note 11 & 23) | 12,891,130 | 11,482,319 |
| Depreciation charge for the year | <u>17,373,396</u> | <u>17,304,267</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 29) | 34,840,738 | 34,046,101 |
| Interest expense allocated to inventory of land and projects in progress (Note 10 (a.3) and Note 10 (b)) | <u>1,761,363</u> | <u>1,093,929</u> |
| Total interest expense | <u>36,602,101</u> | <u>35,140,030</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 for the year ended December 31, 2015 (US\$26,067,136 for the year ended December 31, 2014) (Note 11).
- (d) Non-cash transactions in investing activities include cumulative foreign currency translation reserve in the amount of US\$122,394 which was excluded from investment in associates and joint ventures against cumulative foreign currency translation reserve under equity (US\$58,946 for the year ended December 31, 2014).
- (e) 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\$3,401,840 for the year ended December 31, 2014) which was excluded from prepayments and other debit balances against deferred revenues and other credit balances.
- (f) Cash and cash equivalents comprise the following:

| | Year Ended | |
|----------------------------------|----------------------|----------------------|
| | December 31, | |
| | <u>2015</u> | <u>2014</u> |
| | US\$ | US\$ |
| Cash on hand (Note 6) | 54,098 | 58,491 |
| Checks under collection (Note 6) | 6,197,926 | 26,844,731 |
| Current accounts (Note 6) | 11,896,267 | 15,225,943 |
| Short term deposits (Note 6) | 118,061,067 | 116,576,029 |
| Bank overdrafts (Note 14) | <u>(245,045,868)</u> | <u>(237,576,702)</u> |
| | <u>(108,836,510)</u> | <u>(78,871,508)</u> |

32. RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. significant shareholders, directors and senior management of the Group, 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 Group's management.

Cash and bank balances include US\$86,390,528 as of December 31, 2015 (US\$91,917,713 as of December 31, 2014) representing current bank accounts with a local bank who is a significant but minority shareholder of the Group.

Bank overdrafts and short term facilities include US\$121,586,842 as of December 31, 2015 (US\$110,421,061 as of December 31, 2014) representing short term facilities with a local bank who is a significant but minority shareholder of the Group.

Included under "Interest expense" in the consolidated statement of profit or loss an amount of US\$2,941,556 for the year ended December 31, 2015 (US\$5,582,596 for the year ended December 31, 2014) representing interest expense on short term facilities with a local bank who is a significant but minority shareholder of the Group.

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

During 2013, Beirut Waterfront Development S.A.L., (joint venture), granted the Group a loan in the amount of US\$100,000. This loan bears interest at an annual rate of 8%. The principal of the loan shall be paid through monthly payments representing 2% of Grid Resto restaurant gross sales located in "Zaitounay Bay". Interest expense for the year ended December 31, 2014 amounting to US\$5,770 and settled during the same period. No payments were made and no interest was charged during 2015 as Grid Resto restaurant closed during 2014.

The Group incurred various expenses on behalf of its related parties whose total net debit balances due amounted to US\$4,056,880 as of December 31, 2015 (US\$4,613,957 as of December 31, 2014) (Note 7 and 15).

Accrued interest income on a long term loan of US\$36.54million granted by the Group 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), Note 7 (a) and 12 (a).

During 2015, the Group charged Solidere International Limited, an associate, administrative expenses amounting to US\$824,919 (US\$543,388 for the year 2014) (Note 22), in addition to an amount of US\$7,100 (US\$21,080 for the year 2014) representing payments on its behalf.

During 2015, the Group 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 22).

During 2014, the Group rendered services to BCD Cinemas S.A.L., an associate, for an aggregate amount of US\$68,696 (Note 22).

Total benefits paid to executives and members of the Board of Directors (including salary, bonus and others), included within "General and administrative expenses", for the year ended December 31, 2015 amounted to US\$3,896,842 (US\$4,696,505 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.

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

33. COMMITMENTS AND CONTINGENCIES

- (a) An agreement between the Group 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 Group was granted 291,800Sqm of the reclaimed land surface (totaling 608,000Sqm) against the execution by the Group 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 Group has submitted to the "CDR" claims aggregating US\$13.6million representing mainly change orders to infrastructure works in the traditional BCD which were incurred by the Group on behalf of the Government. These claims were neither approved nor confirmed by the concerned party nor recorded as receivables in the accompanying consolidated financial statements.
- (e) The Group 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 Group'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 condition of the Group.
- (f) On June 7, 1997, the Group signed an exchange agreement with the Lebanese Government. By virtue of this agreement, the Group 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 has 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 Group 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 consolidated financial statements.

- (g) In prior periods, the Group 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 consolidated 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 Group 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 Group 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 Group 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).

34. CAPITAL MANAGEMENT

The primary objective of the Group'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 Group 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 foreign currency transactions, cumulative change in fair value and deficit on treasury shares' activity less treasury shares.

The Group 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> |
| | US\$ | US\$ |
| Total liabilities | 960,009,748 | 899,494,384 |
| Less: Cash and bank balances | (136,209,358) | (158,705,194) |
| Total debt | <u>823,800,390</u> | <u>740,789,190</u> |
| | | |
| Total equity attributable to the owners of the parent | <u>1,957,490,360</u> | <u>2,064,592,058</u> |
| Gearing ratio | <u>0.42</u> | <u>0.36</u> |

35. RISK MANAGEMENT

The Group'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 Group's operations. The Group 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 Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and approves policies for managing each of these risks which are summarized below:

(a) Interest Rate Risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group'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, of the Group's profit before tax.

| | <u>Increase/ decrease in basis points</u> | <u>Effect on profit before tax</u> |
|--------------|---|--|
| | | USD |
| 2015: | | |
| US Dollars | +50 | 513,792 |
| US Dollars | -25 | (256,896) |
| 2014: | | |
| US Dollars | +50 | 644,243 |
| US Dollars | -25 | (322,122) |

(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 Group is not materially exposed to currency risk since the majority of its financial assets and liabilities are denominated in U.S. Dollar.

(c) Credit Risk:

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

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

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

The Group's credit risk exposure with respect to accounts and notes receivable is disclosed under Note 8.

The Group's maximum exposure to credit risk is the carrying amount as disclosed in Notes 6, 7, 8 and 9.

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

| | December 31, 2015 | | |
|---------------------------------------|--------------------------|----------------|--------------------|
| | Lebanon | Europe | Total |
| | US\$ | US\$ | US\$ |
| Cash and bank balances | 135,849,422 | 359,936 | 136,209,358 |
| Other debit balances | 41,503,059 | - | 41,503,059 |
| Accounts and notes receivable, net | 466,209,794 | - | 466,209,794 |
| Investment in asset-backed securities | 69,481,753 | - | 69,481,753 |
| Total financial assets | <u>713,044,028</u> | <u>359,936</u> | <u>713,403,964</u> |

| | December 31, 2014 | | |
|---------------------------------------|--------------------------|----------------|--------------------|
| | Lebanon | Europe | Total |
| | US\$ | US\$ | US\$ |
| Cash and bank balances | 157,875,268 | 829,926 | 158,705,194 |
| Other debit balances | 34,629,626 | - | 34,629,626 |
| Accounts and notes receivable, net | 552,290,794 | - | 552,290,794 |
| Investment in asset-backed securities | 72,768,003 | - | 72,768,003 |
| Total financial assets | <u>817,563,691</u> | <u>829,926</u> | <u>818,393,617</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 Group'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 bank loans.

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

| | December 31, 2015 | | | | |
|---|--------------------------|--------------------|--------------------|-------------------|--------------------|
| | No Maturity | Less than | 3-12 | 1 to 5 | Total |
| | USD | 3 Months | Months | Years | USD |
| | | USD | USD | USD | |
| Bank overdrafts and short term facilities | 245,045,868 | 110,497,260 | 207,864,167 | - | 563,407,295 |
| Accounts payable and other liabilities | 27,219,008 | 17,202,769 | - | 94,164 | 44,515,941 |
| Dividends payable | 61,245,107 | - | - | - | 61,245,107 |
| Deferred revenues and other credit balances | 87,978,003 | - | - | - | 87,978,003 |
| Term bank loans | - | 1,843,925 | 80,905,348 | 60,461,927 | 143,211,200 |
| Non-financial liabilities | <u>77,855,762</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>77,855,762</u> |
| | <u>499,343,748</u> | <u>129,543,954</u> | <u>288,769,515</u> | <u>60,556,091</u> | <u>978,213,308</u> |

| | December 31, 2014 | | | | |
|---|--------------------------|--------------------|--------------------|-------------------|--------------------|
| | No Maturity | Less than | 3-12 | 1 to 5 | Total |
| | USD | 3 Months | Months | Years | USD |
| | | USD | USD | USD | |
| Bank overdrafts and short term facilities | 237,576,702 | 110,497,260 | 204,600,814 | - | 552,674,776 |
| Accounts payable and other liabilities | 25,012,358 | 16,433,008 | - | 94,164 | 41,539,530 |
| Dividends payable | 63,681,032 | - | - | - | 63,681,032 |
| Deferred revenues and other credit balances | 54,916,386 | - | - | - | 54,916,386 |
| Term bank loans | - | 16,204,187 | 76,138,798 | 21,782,223 | 114,125,208 |
| Non-financial liabilities | <u>80,701,819</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>80,701,819</u> |
| | <u>461,888,297</u> | <u>143,134,455</u> | <u>280,739,612</u> | <u>21,876,387</u> | <u>907,638,751</u> |

36. CLASSIFICATION OF STATEMENT OF FINANCIAL POSITION ITEMS

| | <u>December 31,</u> | |
|--|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>US\$</u> | <u>US\$</u> |
| ASSETS | | |
| <u>Current Assets</u> | | |
| Cash and banks balances | 136,209,358 | 158,705,194 |
| Prepayments and other debit balances - Current portion | 46,175,284 | 36,851,689 |
| 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>362,956,115</u> | <u>333,738,671</u> |
| <u>Non Current Assets</u> | | |
| Prepayments and other debit balances - Non-current portion | 5,677,853 | 6,409,353 |
| 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 an joint ventures and associates | 407,632,317 | 374,900,423 |
| Fixed assets, net | <u>58,562,126</u> | <u>55,022,732</u> |
| Total Non-Current Assets | <u>2,554,543,993</u> | <u>2,630,347,771</u> |
| TOTAL ASSETS | <u>2,917,500,108</u> | <u>2,964,086,442</u> |
| LIABILITIES | | |
| <u>Current Liabilities</u> | | |
| Bank overdrafts and short term facilities | 556,042,962 | 548,575,050 |
| Accounts payable and other liabilities - Current portion | 89,816,690 | 92,192,488 |
| 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 | <u>76,246,774</u> | <u>68,207,567</u> |
| Total Current Liabilities | <u>845,190,836</u> | <u>804,722,423</u> |
| <u>Non-Current Liabilities</u> | | |
| Accounts payable and other liabilities – Non-current portion | 21,805,012 | 19,298,861 |
| Deferred revenue and other credit balances – Non-current portion | 36,888,700 | 33,600,100 |
| Term bank loans – Non-current portion | <u>56,125,200</u> | <u>41,873,000</u> |
| Total Non-Current Liabilities | <u>114,818,912</u> | <u>94,771,961</u> |
| TOTAL LIABILITIES | <u>960,009,748</u> | <u>899,494,384</u> |
| EQUITY | | |
| 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 | <u>650,000,000</u> | <u>650,000,000</u> |
| | 1,650,000,000 | 1,650,000,000 |
| Legal reserve | 164,070,347 | 164,070,347 |
| Retained earnings | 197,408,966 | 337,497,132 |
| Cumulative foreign currency translation reserve | (440,731) | (318,337) |
| Deficit on treasury shares' activity | (21,382,494) | (2,446,798) |
| Less: Treasury shares | <u>(32,165,728)</u> | <u>(84,210,286)</u> |
| Total Equity | <u>1,957,490,360</u> | <u>2,064,592,058</u> |
| TOTAL LIABILITIES AND EQUITY | <u>2,917,500,108</u> | <u>2,964,086,442</u> |

37. FAIR VALUE MEASUREMENT

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group 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 Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 3.

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

| | | December 31, 2015 | | | | | |
|---|---|-------------------|--------------------|------------------|----------------------|----------|----------------------|
| Notes | Carrying Amount | Level 1 | Level 2 | Level 3 | Total | | |
| | US\$ | US\$ | US\$ | US\$ | US\$ | | |
| Financial Assets measured at: | | | | | | | |
| Amortized cost | | | | | | | |
| | Cash and bank balances | 6 | 136,209,358 | 6,252,024 | 129,957,334 | - | 136,209,358 |
| | Other debit balances | 7 | 41,503,059 | - | 41,503,059 | - | 41,503,059 |
| | Accounts and notes receivable | 8 | 466,209,794 | - | 466,209,794 | - | 466,209,794 |
| | Investment in asset-backed securities | 9 | 69,481,753 | - | 89,249,759 | - | 89,249,759 |
| | | | <u>713,403,964</u> | <u>6,252,024</u> | <u>729,919,946</u> | <u>-</u> | <u>736,171,970</u> |
| Financial Liabilities measured at: | | | | | | | |
| Amortized cost | | | | | | | |
| | Bank overdrafts and short term facilities | 14 | 556,042,962 | - | 556,516,917 | - | 556,516,917 |
| | Accounts payable and other liabilities | 15 | 44,515,941 | - | 44,515,941 | - | 44,515,941 |
| | Dividends payable | 16 | 61,245,107 | - | 61,245,107 | - | 61,245,107 |
| | Deferred revenues and other credit balances | 17 | 87,978,003 | - | 87,978,003 | - | 87,978,003 |
| | Term bank loans | | 132,371,974 | - | 133,646,740 | - | 133,646,740 |
| | | | <u>882,153,987</u> | <u>-</u> | <u>883,902,708</u> | <u>-</u> | <u>883,902,708</u> |
| Non-financial Assets measured at: | | | | | | | |
| Cost | | | | | | | |
| | Investment properties | 11 | 593,436,775 | - | 1,368,520,209 | - | 1,368,520,209 |
| | | | <u>593,436,775</u> | <u>-</u> | <u>1,368,520,209</u> | <u>-</u> | <u>1,368,520,209</u> |

| December 31, 2014 | | | | | | |
|---|----------------------------|--------------------|-------------------|----------------------|---------------|----------------------|
| Notes | Carrying Amount US\$ | Level 1 US\$ | Level 2 US\$ | Level 3 US\$ | Total US\$ | |
| Financial Assets measured at: | | | | | | |
| Amortized cost | | | | | | |
| Cash and bank balances | 6 | 158,705,194 | 26,903,222 | 131,801,972 | - | 158,705,194 |
| Other debit balances | 7 | 34,629,627 | - | 34,629,627 | - | 34,629,627 |
| Accounts and notes receivable | 8 | 552,290,794 | - | 552,290,794 | - | 552,290,794 |
| Investment in asset-backed securities | 9 | <u>72,768,003</u> | - | <u>84,427,936</u> | - | <u>84,427,936</u> |
| | | <u>818,393,618</u> | <u>26,903,222</u> | <u>803,150,329</u> | <u>-</u> | <u>830,053,551</u> |
| Financial Liabilities measured at: | | | | | | |
| Amortized cost | | | | | | |
| Bank overdrafts and short term facilities | 14 | 548,575,050 | - | 548,522,262 | - | 548,522,262 |
| Accounts payable and other liabilities | 15 | 41,539,530 | - | 41,539,530 | - | 41,539,530 |
| Dividends payable | 16 | 63,681,032 | - | 63,681,032 | - | 63,681,032 |
| Deferred revenues and other credit balances | 17 | 54,916,386 | - | 54,916,386 | - | 54,916,386 |
| Term bank loans | 18 | <u>110,080,567</u> | - | <u>110,986,024</u> | - | <u>110,986,024</u> |
| | | <u>818,792,565</u> | <u>-</u> | <u>819,645,234</u> | <u>-</u> | <u>819,645,234</u> |
| Non-financial Assets measured at: | | | | | | |
| Cost | | | | | | |
| Investment properties | 11 | <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.

38. APPROVAL OF FINANCIAL STATEMENTS

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