

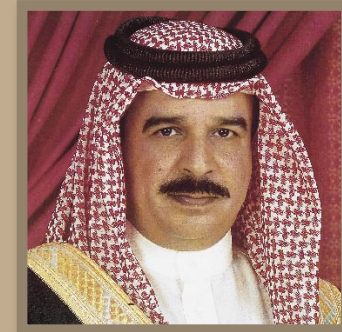
A timeless stream begins
with but a single drop

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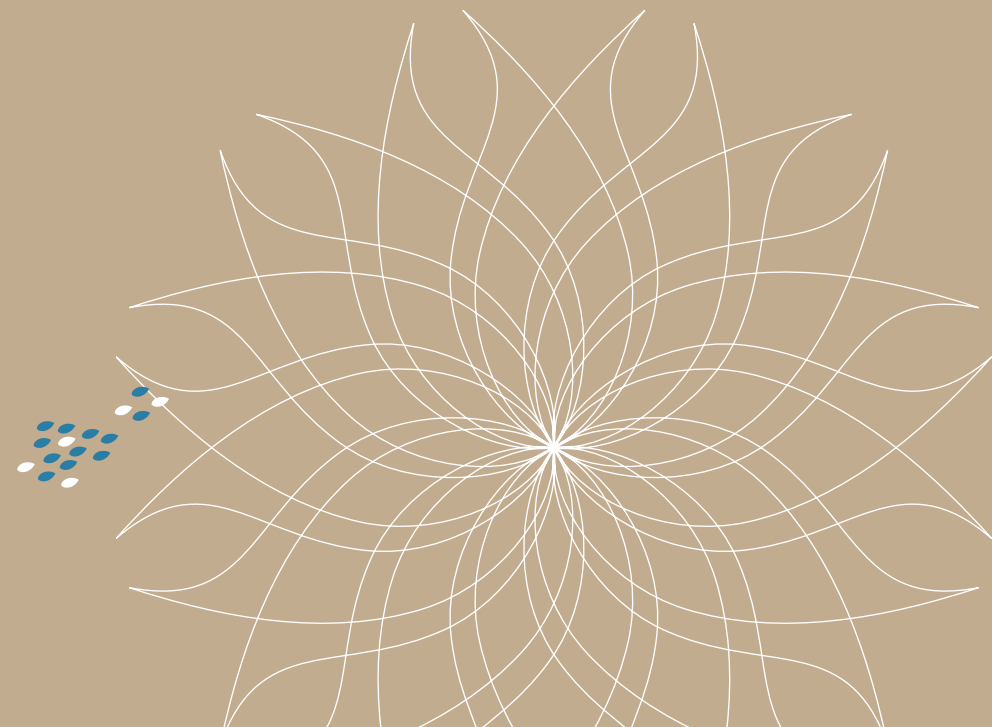
His Highness
Shaikh Khalifa Bin Salman Al Khalifa
The Prime Minister



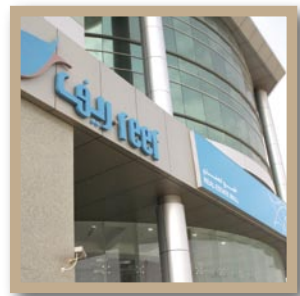
His Majesty
King Hamad Bin Isa Al Khalifa
King of Bahrain



His Highness
Shaikh Salman Bin Hamad Al Khalifa
The Crown Prince
Commander-in-Chief
of the Bahrain Defence Force



Our Vision & Mission



1 Reef – Real Estate Finance Company BSC was established in September 2005, under regulatory guidelines set by the Central Bank of Bahrain, as the first Islamic real estate finance company in the Kingdom of Bahrain. Reef commenced full operations in May 2006, with the primary focus of creating complete real estate and mortgage finance solutions for new and existing property owners.

Reef believes in providing choices and solutions. In this pioneering role we aim to create a self-sustaining business 'ecosystem' of services; where we group partners and alliances from within the real estate sector in order to provide a single touch-point for access to an extended portfolio of real estate services from property search, to construction, and financing of both personal and investment opportunities.

Our business model supports choice and catalyzes sustainable growth and prosperity sharing through targeted funding and cross sector expansion. Our Islamic business philosophy and shariah compliant borrowing terms go beyond words alone – they express our deep commitment to the values of stewardship, diversity, and social betterment.

As such, Reef extends itself as a keystone organization; a founding entity that provides a stable platform for the networking and development of resources that will empower and lead the real estate ecosystem on a local and regional level.

Reef: Estate of choice

Our Vision

To be the benchmark for quality and leadership in the region – creating a prospering and sustainable real estate ecosystem. Our vision encompasses the development of real estate investment opportunities, innovation and choice in mortgage finance solutions, and profitable value sharing with our stakeholders.

Our Mission

To become the strategic keystone for the provision of complete real estate solutions distributed through a franchise model. Reef will create an ecosystem that builds upon opportunities within the real estate market, cultivating sustainable growth amidst an assembly of resources, alliances and clients.

2 Reef will bring to life and unite the principles of Islamic finance with genuine product and service innovation, and streamlined process management, to deliver client success and satisfaction. The Reef approach will deliver tangible additional value – to the community at large and to our service partners.

Reef's focus is to create an empowered state of choice for clients, superior franchise value for our service distributors, excellent returns to partners and shareholders, and an innovative and rewarding work environment for our employees.

Reef believes in value-rich business. Everything we do and say is inspired by our beliefs and principles. We translate these concepts into development initiatives and programmes.

Annual Highlights 2006

Financial

- Reef achieved net income of BD 1.5 million within its first year of operation.
- Reef realized operating revenue of BD2.6 million.
- Through our core line of business, Reef provided a mortgage income to total income ratio of 60%
- Reef maintained a healthy expense to income ratio of 41%
- Return on equity was 6.9%
- Reef delivered a return on capital of 7.5%, surpassing expectations by 2.5%
- Earning Per Share of 7 fils.

Operational

- Commenced full operations in May 2006, following formal establishment of Reef in September 2005
- Provided 167 families with financing to purchase or build their own homes
- Signed agreements with over 15 leading real estate alliances as exclusive or preferred mortgage supplier for new residential and commercial projects
- Developed diversified real estate portfolio, including investment in landmark US\$ 1.6 billion Bahrain Investment Wharf development project
- Participated in three new private sector projects to meet increased demand for affordable housing by mid-income Bahraini citizens
- Strategic alliance partner in BD 6.6 million Hay Al Zahra – Bahrain's first private sector affordable housing project
- Set new benchmark for processing mortgage applications within an average of three days compared to industry norm of three weeks
- Awarded "Best Finance House in Bahrain 2006" in the Islamic Real Estate Finance (IREF) awards ceremony held by ICG in Burj Al Arab, Dubai
- Finalized plans to move to new HQ premises in March 2007, which will incorporate the region's first real estate mall concept

Inspiring Excellence

Our dedication to quality is evident in all we do – from products and services to processes. Our employees are enlightened and empowered to embody excellence and inspire it around them.

Partnership

We believe that the greatest and most durable results are achieved through partnership and value-sharing – across sectors and on all levels.

Innovation and Originality

As a sector catalyst, we are committed to an innovative business approach. This embraces designing products and services, and responding to opportunities with the flexibility to realise the greatest results.

Accomplishment

Our commitment to accomplishment is based on effective goal implementation. We are driven to be the best of breed, and we dedicate ourselves to realising every goal that we set.



Chairman's Statement

On behalf of the Board of Directors, it is my privilege to present the inaugural annual report of Reef - Real Estate Finance Company for the period ended 31 December 2006

Established in September 2005, Reef commenced its operations on a pioneering note as the first Shariah-compliant real estate finance company in the Kingdom of Bahrain. Reef commenced actual operations in May 2006, and I am delighted to report that the Company's progress during this brief start-up period has exceeded all expectations.

From a strategic point of view, the immediate impact of the Company as a highly differentiated new entrant to the Kingdom's financial sector has been remarkable. In just a few months, our management team has successfully positioned

Reef as a keystone organization in the real estate finance market. In establishing itself as a founding organization, Reef is inclined to address a wider sphere of influence than that of any other finance house. More than simply providing funds for realty development, Reef pursues and supports strategies that promote the health of the real estate service community. This supports Reef's vision to create a real estate ecosystem – a holistic model for the provision of financing, networking and development resources that will inspire and empower the real estate market.

A number of key business, operational, and financial achievements underline the Company's initial success. On the business front, we signed agreements with several leading property developers as the preferred mortgage supplier for key residential projects; provided financing for numerous individuals to purchase properties; and built up a diversified portfolio of

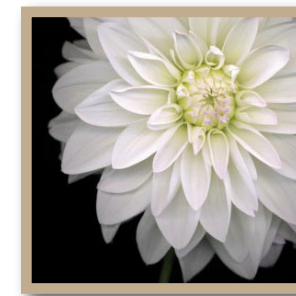
industrial, commercial and residential real estate investments that will provide both financial and social returns.

At the same time, we established a strong corporate governance and risk management framework, and put in place a robust operational infrastructure. This involved recruiting a team of skilled and experienced professionals, installing state-of-the-art IT systems, and introducing best practice policies, processes and procedures.

These achievements resulted in a strong financial performance by Reef. Net income for the period was BD1.5 million, with two of our main financing products - Ijarah Bittamleek (lease to own) and Musharaka (partnership) – contributing BD530 thousand and BD88 thousand respectively. At the end of 2006, the value of the Company's investment portfolio stood at BD33.8 million.

Partnership..

"I have found no greater satisfaction than achieving success through honest dealing and strict adherence to the view that, for you to gain, those you deal with should gain as well"
Alan Greenspan



Reef is committed to contributing to the economic and social well-being of the community. During the year, we actively supported a number of initiatives to provide affordable housing for mid-income families whose needs, until now, have been largely underserved. These include partnering with private sector developers on new projects, and working with the Ministry of Works & Housing to create a Public Private Partnership between the Government and the financial services and construction sectors. We also fully support the Government's plan to introduce a Mortgage Guarantee System that would develop both a primary and secondary mortgage loan market in the Kingdom to provide greater liquidity and enable the securitization of mortgage assets. We also applaud the gesture by His Majesty the King to halve the outstanding balances on Government-subsidised mortgage loans held by low-income Bahraini citizens, alleviating the housing burden on this segment of society.

Appropriations

The net profit for the year ended 31 December 2006 was BD1,490,981 which represented the total amount available for appropriation. The board of directors recommend the following appropriations:

1. Transfer of 10% of the net profit amounting to BD149,098 to the statutory reserve, in order to meet the minimum requirement of 50% of the issued share capital.
2. Transfer of the balance of BD1,341,883 to retained earnings.

Looking ahead, we are confident that the recent growth momentum of the GCC economies will be maintained, and that the current high levels of liquidity will continue to benefit the real estate and property development sectors. Key factors such

as the growth in population, increasing demand for housing, and investors' sustained appetite for real estate opportunities, will undoubtedly have a beneficial impact on Reef's business activities. In 2007, we will consolidate our encouraging progress to date, and continue to develop Reef's franchise value in Bahrain, with a view to expanding it on a regional basis.

On behalf of the Board of Directors, I would like to extend my best wishes and gratitude to His Majesty the King, His Highness the Prime Minister, and His Highness the Crown Prince, for their inspired leadership, visionary reform programme, and support for the private sector in the Kingdom of Bahrain. My thanks are also due to the Government's ministries and regulatory authorities for their professional advice and guidance.

I would also like to take this opportunity to express my sincere appreciation to our shareholders for their confidence and financial support; to our clients for their loyalty and trust; to our business partners for their support and encouragement, and to our management and staff for their commitment and contribution throughout the year.

Ali Ahmed Al Baghli
Chairman



Ali Ahmed Al Baghli
Chairman

Majed Abdulla Al Khan
Board Member

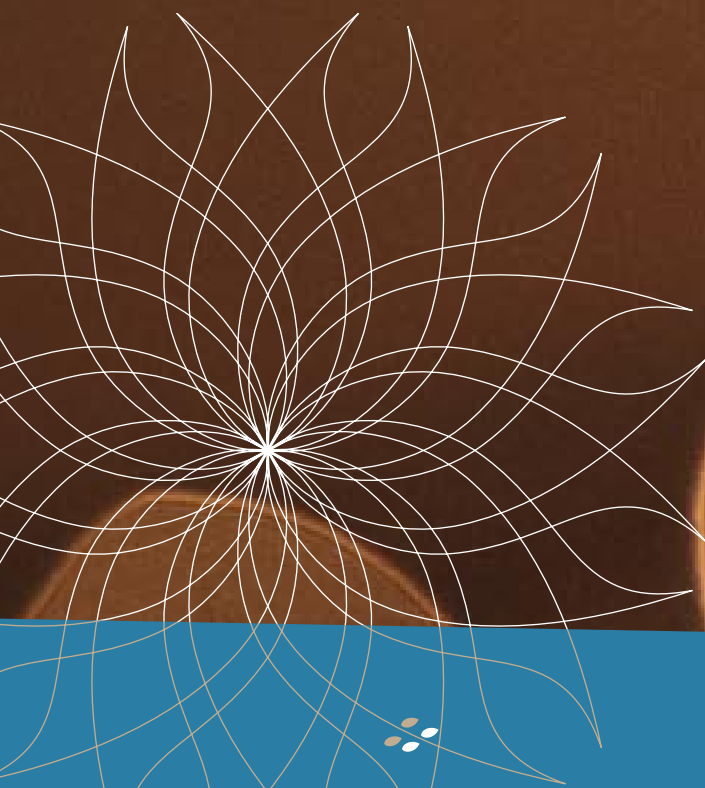
Khalil Ibrahim Al Aali
Board Member

Faisal Ali Al Matrook
Board Member

Omar Mahmoud El-Quqa
Vice Chairman

Aidarous Salem Al Bar
Board Member

Mohammed Abdulrasool Al Tawash
Board Member



Dynamism..

"Every action of our lives touches on some chord that will vibrate in eternity."
Edwin Chapin



Management Review of Operations

On behalf of the Executive Management team, it is my pleasure to present this review of the business and organisational achievements by Reef since the commencement of full operations in May 2006. This proved to be a blessed and eventful period for Reef, with our initial achievements reinforcing the Company's vision to make a visible and enduring difference in the real estate finance market.

Driven by a brand promise to inspire excellence in our sector, and to extend value sharing opportunities through innovative resource choices; 2006 was a year underpinned by the challenge to be a truly qualitative addition to the market. To that end, Reef has undertaken strategic plans to ensure that from inception we deliver on our promise for differentiation.

Accordingly, differentiation, in product/service innovation, processing time, and customer service, form the cornerstone of our mission to offer greater choice and end-to-end financing solutions to our clients.

In this respect, our retail mortgage financing activities made an excellent start in 2006, with Reef helping 167 individuals and families to purchase or build their own homes. It is interesting to note that the majority of this business was generated not by marketing or advertising, but by 'word-of-mouth' referrals by satisfied clients. This encouraging trend endorses our total commitment to our brand values and to the Islamic principles of fairness and honesty; both of which guide us in the way that we care for our clients. Two fundamental examples serve to illustrate this approach. Firstly, in our advisory-based approach to business, we employ impartial and experienced real estate finance advisors, and not transaction driven salespeople. Our

advisors diligently strive to build lifelong customer relationships based on delivering client success and satisfaction. Secondly, we extend our commitment to transparency and trustworthiness across all our support systems, even down to clear and concise documentation; this is towards creating an experience that is inherently 'Reef' on all accounts.

With regards to service differentiation, our pioneering concept for a real estate ecosystem is manifested in the development of the Reef Real Estate Mall, our new headquarters, which will ultimately group together an array of realty services from our strategic alliances and business partnerships, to provide a one stop solution for a variety of retail, commercial and investment financing needs. To that end, Reef has throughout the year, signed cooperation agreements with over 15 leading real estate alliances, which named Reef as the exclusive or preferred mortgage supplier for landmark residential and commercial



Management Review of Operations

projects in the Kingdom of Bahrain. These include Arwa Residences – the first completed, ready-to-own-and-occupy freehold apartments; Tala Island and Amwaj Gateway – the first self-contained gated family communities; Riffa Views – the first golfing residential development; and The Lagoon – the 'first-of-its-kind' commercial and lifestyle facilities complex. Through these agreements, Reef is committed to making available mortgage financing for over 3,000 housing units, which illustrates our commitment to bring the acquisition of properties within the reach of most Bahrainis and GCC residents.

This value of partnership resonates clearly, within Reef as an organization. A key factor in Reef's early business success has undoubtedly been the smooth and efficient support provided by the skilled and experienced professionals who make up our back office team. Their dedicated efforts to date have made a true difference in terms of operational excellence, underlined by the quality of underwriting and credit control, fast decision making, and customer service-orientation in all respects. Most notably, they have set a new industry benchmark for the speed of processing mortgage finance applications. Compared to the industry norm of three weeks, Reef processes applications within an average of just three days. This remarkable achievement has been made possible by establishing close working relationships with service providers for key areas such as property valuation, insurance, and land and property registration as is another means of service differentiation.

As a value-driven organization, we believe that it is our corporate social responsibility to make a positive impact on society. Consequently, Reef was actively involved in a number of key social initiatives during 2006. The most significant of these, in terms of its long-term impact, was our contribution towards easing the housing shortage for middle income families in Bahrain. Accordingly, we established our firm commitment to support and deliver upon Government initiatives to this end and have also partnered with established promoters and developers on a number of projects that aim to provide affordable housing for this segment of the community. These include Hay Al Zahra in collaboration with Al Enma'a House, and Aldar in association with ProCapital Associates. In addition, Reef provided financial

support in the areas of education and the environment, and the empowerment of the disabled community. In 2007, Reef is determined to see its role of corporate citizenship expanded towards the creation of long term value additions that nourish the foundations of our community. Reef's achievements during 2006 clearly illustrate our success in introducing a new and distinctly different concept in mortgage finance. We have made remarkable progress towards creating an empowered state of choice for our clients; superior franchise value for our service providers; excellent returns for our shareholders and partners; and a challenging and rewarding working environment for our staff.

As a sustainable brand, the Reef mindset champions continual development of key behaviors and values; we are incessantly inspired to provide development resources, investment opportunities, and mortgage finance solutions that are grounded in processing speed and efficacy. We are driven in forthcoming years to surpass the expected choices and solutions, and to create a new and holistic category in real estate services and solutions.



Dr. Khalid Abdulla
Chief Executive Officer

Management Team



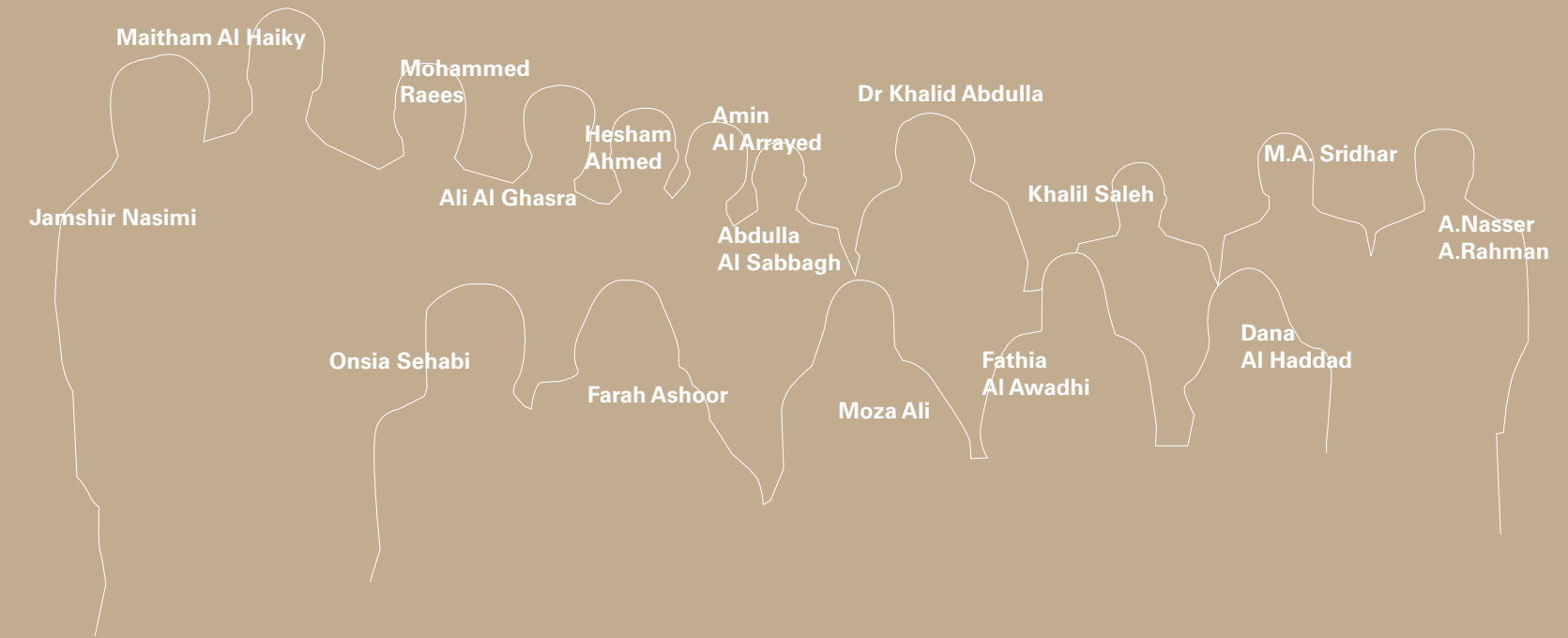
A. Nasser Abdulrahman
Chief Business Officer

Dr. Khalid Abdulla
Chief Executive Officer

M.A. Sridhar
Chief Operating Officer

Jamshir M. Nasimi
Chief Financial Officer

Amin Al Arrayed
Head of Retail & Placement





Abundance..

"Abundance is not something we acquire. It is something we tune into"
Wayne Dyer

Project's and Affiliates



In collaboration with our strategic alliances and business partners, Reef is today associated with a number of landmark properties and real estate development projects in the Kingdom of Bahrain.



Residential

Abraj Al Lulu

Pearl Development & Real Estate Company
Pegasus Realty

Bahrain's largest private sector freehold residential development, Abraj Al Lulu comprises three towers offering 862 apartments in the centre of Manama City.

Amwaj Gateway

RealCAPITA
Yara Investment Company

At the entrance to Amwaj Islands, this mixed-use development comprises residential, a hotel, commercial outlets, and leisure and sports facilities.

Arwa Residences

Waleed A. Kooheji

Located in Juffair and comprising 19 spacious apartments, Arwa Residences is Bahrain's first completed, ready-to-own and occupy freehold premises.



Bella Vista Tower

Al Marzooq Group

The first high-rise apartment block in the Mahooz area, Bella Vista Tower overlooks Tubli Bay, designated a World Heritage site by UNESCO.

Le Papillon

First Reef

Reef holds an equity stake in this apartment building development through its subsidiary First Reef. The apartments are pre-approved for end-used financing.

Mal Suites

MAL Suites

One of the first packaged real estate financing solutions to be offered by Reef, MAL Suites is a luxury 14-storey apartment building located in Juffair.

Marmar Residential Towers

Manazil Real Estate Company

This dual tower residential complex comprises over 100 three-bedroom spacious apartments, complemented by a comprehensive range of lifestyle facilities

Orchid Towers

MAL Suites

Located in Juffair, Orchid Towers is designed to meet the demand for reasonably priced apartments that are of a high standard of construction, finish and facilities.

Riffa Views

Riffa Golf & Residential Development Company
Arcapita
Bahrain International Golf Course Company

Bahrain's golfing residential development, Riffa Views features a gated community of 900 homes around a new PGA championship golf course.

Tala Island

Tala property Development Company (Tameer)

An exclusive gated residential community comprising villas and apartments, Tala Island is a prestigious component of the Amwaj Islands development project.

Project's and Affiliates



Commercial

Orchid Business Centre

MAL Suites

Strategically situated in the Seef district, the first-of-its-kind Orchid Business Centre offers commercial tenants the benefit of value-added lifestyle facilities.

The Lagoon

Abu Dhabi Investment House

As part of Amwaj Islands off the coast of Muharraq, The Lagoon comprises eight low-rise buildings for high-end consumer retail, leisure and food and beverage outlets. Covering a total land area of 55,000 square meters, the development represents an investment of more than US\$90 million.

Industrial

Bahrain Investment Wharf

Al Khaleej Development Company (Tameer)

Reef is an investor in the BD 1.6 billion Bahrain Investment Wharf, the first privately-owned-operated-managed industrial and commercial park in Bahrain.

Affordable Housing

Aldar

ProCapital Associates
Sadad Homes Real Estate One Company

This unique private sector housing project located in the Sadad area, is the first in a series of planned developments designed to provide high-quality, reasonably-priced villas and apartments for middle income Bahraini families.

Hay Al Zahra'a Views

Al Enma'a House for Real Estate
Liquidity Management Centre
Reef – Real Estate Finance Company

Located 400 meters from sea and just 15 minutes from the Bahrain International Circuit, Al Areen Wildlife Park and Bahrain University, the BD 600 million Hay Al Zahra'a Views is the Kingdom's first government and private sector partnership affordable housing project. This new community comprises villas, terraced houses and apartments, together with commercial and community facilities.



Corporate Social Responsibility

“Social obligation is much bigger than supporting worthy causes. It includes anything that impacts people and the quality of their lives.”
William Ford Jr.

Social Responsibility



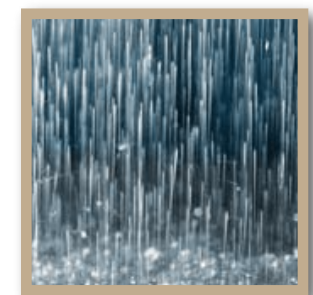
At Reef, we are committed to action. Our business philosophy and Shariah-compliant borrowing terms go beyond words alone – they express our deep commitment to the Islamic values of stewardship, diversity and wider social betterment. In addition to an orientation towards action, we believe in values. Our brand values of inspiring excellence, partnership, innovation and originality, and accomplishment are core to all our actions. Accordingly, we believe that results are not measured by what we say, but by what we do and how we do it. We strive to develop mutually-beneficial partnerships through which we can share our values and make a lasting contribution to the community.

In line with our corporate social responsibility to make a positive impact on society, Reef participated in a number of key social initiatives during 2006. Perhaps the most significant of these, in terms of creating long-term prosperity, was our involvement in projects designed to address social housing issues in the Kingdom of Bahrain.

During the year, we partnered with established promoters and developers on three innovative projects to provide high-quality, affordable housing for middle-income families, whose needs until now have been largely underserved. These include the Hay Al Zahra and Hay Al Reehan projects in collaboration with Al Enma’a House, and the Aldar project in association with ProCapital Associates.

Reef also participated in the Government’s ‘Public Private Partnership’ initiative that seeks to engage the private sector, financial institutions and construction companies, in financing and developing social housing projects. Ultimately, the aim is to collaboratively ease the burden on public sector funding to providing mortgage loans for low-income Bahraini families.

In addition, Reef provided financial support for a number of charitable, educational, medical and environmental organizations, and other deserving causes such as the empowerment of the disabled community.





Financial Review



Foundation..

The beginning is the most important part of the work
Plato

Operating Performance

In the first year of operation, Reef has attained considerable earnings. The net income amounted to BD1.5 million before statutory reserves and thus confirmed and surpassed the earnings target of BD1.0 million, despite the challenges of startup faced by the management.

Return on capital amounted to 7.5%. This meant that the expected return target of 5.0% for Reef was met by 2.5%.

Operating Revenue

Operating Revenue of BD2.6 million (including return on Mudaraba activities) was also higher than the communicated range. The reflected operating revenue exhibits the necessity for companies such as Reef in the local and regional markets. The

public demand for affordable housing outgrew all expectations and entailed allocation of most available resources to that end.

Investment Income

Income from investments of BD 1.1 million was generated mainly on the mark to market revaluation of Reef's investment in Tala Island properties. Total company's investment in Tala Properties amounted to BD6.4 million and the market valuation of this property amounted to BD7.4 million.

Operating Income

Total operating income of BD2.5 million also incorporated an amount of BD791 thousand pertaining to Mudarabaha Profit. The Mudarabaha balances were kept with local and regional Islamic commercial financial institutions.

The total operating income was also affected by commission income of BD115 thousand which pertains to management fees payable by Tameer for selling to and arranging for Agar International Holdings Ltd's subscription in the Bahrain Industrial Wharf (BIW), for an amount equivalent to BD 1.2 million. This undertaking also affected Reef's own investment in BIW of BD 2 million through unrealized gain of BD 140 thousand.

General Administrative Expenses

Administrative expenses at Reef amounted to BD333 thousand which is nearly fifty percent less than the originally planned overheads. This was achieved through rigorous management control of day to day expenses and without jeopardizing the value of Reef's operational activities.

The company also incurred pre-operating expenses of BD170 thousand of which BD120 thousand was expensed at the

beginning period as per the International Accounting Standard 38 – Intangible Assets and Recognition of pre-operating Expense. The remaining BD50 thousand which relates to the feasibility study performed at inception is to be amortized over five years.

Net Operating Income

Before provisions and exchange gains, net operating income amounted to BD1.5 million which represents a favorable variance of 34% over the budgeted figure of BD1.1 million. The figure includes an amount of BD35 thousand in financing costs (the cost of borrowing BD4.9 million) which were incurred during December 2006.

Provisions for losses

There were no actual provisions for losses on mortgages and Ijara'a agreements for the whole period contrary to the expected figures of BD 35 thousand. The management decision not to provide for such losses was based on the stringent policy exercised throughout the organization to ensure non-occurrence of such losses. This policy will be pursued by the Management in forthcoming years to minimize the provisions amount. Moreover; Reef has a distinctive advisory model, in which customer relationship management tools utilized by our real estate finance advisors enable a very close working relationship with clients from the outset. This ensures Reef caters to client requirements and is able to respond to their changing needs as and when they occur.

Net Income

A net figure of BD1.5 million is above the targeted net income by 42%. This figure includes BD28 thousand exchange gains recognized from Mudarabah activities in Kuwaiti Dinars.

Overall, the growth of Reef has been extremely positive and the actual growth is considerably ahead of the figures budgeted at the time of instituting the company.

Operating Performance (in BD '000s) 2006

Operating Revenues	2,548
General administrative expenses	333
Net Income from Investments	1,519
Net Income	1,491

Key Numbers 2006

Return on Capital	75%
Earnings per Share (fils)	7
Expense: Income Ratio	41%

Balance Sheet Growth

Overall net worth (net assets employed) increased over the period by BD1.5 million (7.5%) to BD21.5 million. This increase is reflected in the BD33.0 million in tangible assets covered in part by BD3.0 million long term borrowings and BD1.9 million in short term borrowings.

The company's current liabilities at December 31st 2006 were BD8.7 million. Current liabilities mainly include clients' down payments for their residential financing arrangements. It also includes a charity fund of BD108 thousand. This was sourced from the share capital received from shareholders before the commencement date of operations. This was in turn invested in money market funds with banks, which resulted in interest of BD115 thousand, of which BD7 thousand were paid to charitable entities during the year.

Total assets amounted to BD35.0 million, which represents a growth of 75.2%. Reef's principal assets are its residential property mortgages which amounted to BD19.1 million as of December 31st 2006. Due to the nature of these properties and in accordance with the International Accounting Standards, these properties are priced at book value.

The investment portfolio was valued at BD 9.6 million. The main driver of this figure was the revaluation of the investment property portfolio which added BD1.1 million, primarily from revaluation of Tala properties.

Added value to shareholders increased by 1.3% as measured by the NAV per share. Net Assets Value grew by BD1.5 million to BD21.5 million.

Financing Strategy and Capital Structure

Our financial strategy is to maintain a level of debt that balances the risks to the business with the higher returns on equity achieved by lower cost of funding. This translates into a long run financial gearing target of more than three and half times. We have currently positioned the company well below 25% gearing, partly to ensure substantial financial resources for the next phase of delivery of major activities.

The company opened the year with BD20 million available resources. This was supplemented during the period by BD4.9 million as additional financing from external sources. These largely provided the funding required for the working capital. The company held BD 5 million cash at December 31st 2006 and had a net cash inflow from operating activities of BD8.3 million. The largest factor in this was the investment in Tala properties of BD3.0 million.

Risk Management Review

Outlook

The growth in earnings seen in 2006 fully confirmed the expectations of the management and the Board. The company will resume new businesses and break new frontiers, aiming, in near future, to be the centre of competence and confidence for the public and for financial institutions in the region.

The forecasts relating to the future growth of Reef are estimates which have made on the basis of information available at present. If the assumptions underlying the forecasts fail to materialize or if risks – such as those detailed in the risk report – occur to an extent which has not been calculated, the actual results may differ from the results which are expected at present.

The management and the Board are targeting a return on equity above 10% for 2007.

Risk Report

Businesses, irrespective of their nature, are based on risk. Risk management focuses on identifying what could go wrong, evaluating which risks should be dealt with, and implementing strategies to deal with those risks. Businesses that have identified their risks will be better prepared and have a more cost-effective way of dealing with them. Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed, and that appropriate controls and responses are in place. For this purpose, Reef has from the outset, established its risk management in line with the corporate business model.

The objective of risk management is to ensure that returns which are commensurate with the risks that have been assumed are generated. Simultaneously guidelines and tools of risk policy limit these risks in such a way that unexpected problems do not endanger the sound basis of the Company.

Several committees have been set up within the company such as the investment committee and asset liability committee to monitor, evaluate, and control market risk, liquidity risk, financial, and credit risk. These committees which are manned

by members of management meet on a regular basis and are an integral part of the risk management at an enterprise-level.

In Reef, a distinction is made between credit risk, market risk, liquidity risk, operational risk, strategic risk and other risks.

Credit Risk

Credit Risk is most simply defined as the potential that a client will fail to meet his/her obligations in accordance with agreed terms. The goal of credit risk management is to maximize the Company's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The Company also recognizes the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of the Company. In order to ensure that this risk is managed in a professional manner, lending policy throughout the company is based on the following core principles:

- Thorough and careful credit analysis of each individual transaction
- Determination of the extent to which forecasted cash flows are able to cover capital servicing as well as the current and sustainable value of collateral.
- Ongoing active observation of the real estate market and proactive adjustment of the lending policy where necessary.

Market Risk

In the normal course of business, the financial position of the Company is routinely subject to a variety of risks. In addition to the market risk associated with interest rate and changes in prices, other examples of risk include collection of accounts receivable and recovery of residual values on leased assets. The company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the company does not anticipate any material losses from these risks.

Liquidity Risk

As a long-term mortgage lender, the Company holds sufficient liquid assets to enable it to continue normal operations even in the unlikely event that it is unable to obtain fresh resources from the capital markets for an extended period of time. The Company's policy requires maintaining a prudent minimum of liquidity based on projected net loan transfers, contingent liabilities, and debt service payments. An annual funding plan is also prepared, with due consideration given to planned new businesses; this funding plan is adopted and implementation and therein monitored at organization wide levels.

Operational Risk

Operational risks are defined as risks attributable to unexpected losses resulting from defective internal processes, human errors, technology failure, or external events. The definition of operational risk used in Reef is consistent with that defined by Basel II formula.

The management is responsible for identifying and handling the company's specific operational risk. The risk management and investment committee meet regularly in order to ensure uniform recognition and management of these risks throughout the company.

Strategic Risk

Strategic risks are defined as the risk that fundamental decisions of business policy might endanger the long-term success of Reef. The strategic direction of the company is regularly reviewed at the management and Board level. This practice enables Reef to limit strategic risk and to arrange for countermeasures to be taken at an early stage, as and when required. Reef uses regular performance-to budget comparisons to monitor the success of the operational implementation of the business strategy.

Reef is committed to upholding the highest standards of corporate governance. The Company seeks to balance entrepreneurship, compliance, and industry best practices, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of Reef in compliance with regulatory requirements. It also involves having the right checks and balances in place throughout the organisation to ensure that the right things are always done in the right way.

Responsibilities

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Group's shareholders. The Board has appointed two Committees to assist it in carrying out its responsibilities. The Internal Audit function reports directly to the Board through the Audit Committee. The Board delegates the authority for management of the business to the Chief Executive Officer, who is supported by three Management Committees.

Board of Directors

Ali Ahmed Al Baghli

Chairman
National International Holding Co. KSC

Omar Mahmoud El-Quqa

Vice Chairman
Global Investment House

Aidarous Salem Al Bar

Board Member
Al Namou Al Aqari Limited Co.

Faisal Ali Al Matrook

Board Member
Ossis Property Developers B.S.C

Majed Abdulla Al Khan

Board Member
Khaleej Development Company BSC

Khalil Ibrahim Al Aali

Board Member
Global Investment House

Mohammed Abdulrasool Al Tawash

Board Member

Board Committees

Audit Committee

Mr. Omar Al Quqa – Chairman
Mr. Mohammed Al Tawash - Member
Dr. Jassim Al Ajmi – Member

Executive Committee

Mr. Faisal Al Matrook - Chairman
Mr. Majed Al Khan –Member
Mr. Khalil Ibrahim Al Aali –Member
Mr. Aidrous Al Bar– Member

Sh. Dr. Fareed Mohammed Hadi - Sharia Supervisory Advisor

An accomplished and widely respected Sharia scholar, Dr. Hadi holds two degrees from Al-Imam Muhammad Ibn Saud Islamic University, Riyadh, Saudi Arabia: a Master's degree in Islamic Call and Ihtisab (College of Islamic Call) and a Bachelor's degree in Prophetic Sunna and its Sciences (College of Fundamentals of Religion). He also holds a Ph.D. in Islamic Law from Edinburgh University, UK. Dr. Hadi has served as an Imam and Khatib at Al-Darwish Mosque in Bahrain, and at Khadim Al-Haramin Mosque in Edinburgh.

Executive Management Team

Dr. Khalid Abdulla – CEO

M.Sc in Economic Development (University of East Anglia, UK) and Ph.D. in Economics (Exeter University, UK). 20 years' academic and research experience at the University of Bahrain and 5 years' banking experience with BBK.

Mr. A. Nasser Abdulrahman – Chief Business Officer

B.Sc Economics (University of Texas, USA). Over 19 years of commercial and corporate banking experience.

Mr. M.A. Sridhar – Chief Operations Officer

B.Sc (India) and MBA (Sheffield Hallam University, UK). Over 20 years of experience in IT and process management, strategic and tactical e-business, and CRM. implementation.

Mr. Jamshir M. Nasimi – Chief Financial Officer

B.Sc Business Administration & Management (Templeton University, USA), MBA (Strathclyde University, Scotland), and CPA (New Hampshire, USA). 26 years of experience within the offshore and investment banking and financial services industry.

Mr. Amin Al Arrayed – Head of Retail and Placement

B.Sc Economics and International Relations (University of Redlands, USA) and MBA (DePaul University, Bahrain). Over 10 years' of experience in banking and finance practice.

Thanks to Almighty Allah and prayers and peace be upon the last apostle and messenger, our Prophet Mohammed, his relatives, commands and those who follow his rightful guidance till the last day.

Management Committees

General Management Committee

Dr. Khalid Abdulla - Chairman
Mr. A. Nasser A. Rahman – Vice Chairman
Mr. M.A. Sridhar
Mr. Jamshir Nasimi

Investment Committee

Dr. Khalid Abdulla - Chairman
Mr. A.Nasser A.Rahman – Vice Chairman
Mr. M.A. Sridhar
Mr. Jamshir Nasimi
Mr. Amin Al Arrayed

HR Committee

Dr. Khalid Abdulla - Chairman
Mr. M.A. Sridhar – Vice Chairman
Mr. A.Nasser A.Rahman
Mr. Jamshir Nasimi
Ms. Fathia Al Awadhi

Framework

Reef's corporate governance framework comprises a code of business conduct; operational policies and procedures; internal controls and risk management systems; internal and external audit and compliance procedures; effective communications and transparent disclosure; and measurement and accountability.

Code of Business Conduct

Reef conducts itself in accordance with the highest standards of ethical behaviour. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders.

Compliance

Reef has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain, including appropriate anti-money laundering procedures.

Communications

Reef conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include an annual report, corporate brochure, website, and regular announcements in the appropriate local media.

Bismi Allahi alrrahmani alrraheemi

Shareholders of Reef Real Estate Finance Company BSC

Asslam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed the principles and contracts relating to the transactions conducted by Reef Real Estate Finance Co. B.S.C. (c) (the "Company") during the course of the year ended December 31, 2006. Our review was conducted in order to judge whether the Company followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the Shari'ah Supervisory advisor. The Company's management is responsible for ensuring that its operations are carried out in compliance with our rulings. It is our responsibility to present an independent view of the Company's operations and to communicate it to the shareholders.

Our review included a detailed analysis of each type of transaction with its relevant documentation and procedures adopted by the Company.

The review was planned and performed so as to obtain all necessary information and explanations to provide sufficient evidence proving that the Company has not violated any rules and principles of the Islamic Shari'ah.

In our opinion:

- The Company's contracts, transactions and deals for the period ending December 31, 2006 are in compliance with the rules and principles of the Islamic Shari'ah.
- The Company's allocation of profit relating to investment accounts are in compliance with the rules and principles of the Islamic Shari'ah.
- Earnings that have been realized from sources that are non-Shari'ah compliant will be donated to charity.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh



Sh. Dr. Fareed Mohammed Hadi
Shari'ah Supervisory Advisor

20 Muharram 1428
 8 February 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF REAL ESTATE FINANCE (REEF) BSC (c)

We have audited the accompanying financial statements of Real Estate Finance (REEF) BSC (c) ("the Company") which comprise the balance sheet as at 31 December 2006, the statement of income, the statement of changes in shareholders' equity and the cash flow statement for the period from 10 September 2005 (date of incorporation) to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Directors for the financial statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization For Islamic Financial Institutions, the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Board of the Company and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the period then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization For Islamic Financial Institutions, the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Board of the Company and International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

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

In addition, we report that nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law, or the Central Bank of Bahrain and Financial Institutions Law 2006, or the terms of the Company's license, or its Memorandum and Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2006.

B D O Jawad Habib

Manama, Kingdom of Bahrain
8 February 2007

96067



Financial Statements

Statement of Financial Position at 31 December 2006 (Expressed in Bahrain Dinars)

	Notes	2006
ASSETS		
Cash and cash equivalents	2	240,198
Investments:		
Investment in an associated undertaking	3	270,000
Investment property fund	4	1,860,000
Mudaraba investments	5	4,900,467
Musharaka financing	6	3,904,435
Ijarah Muntahia Bittamleek	7	15,150,563
Investment properties	8	7,701,517
Trade and other receivables	9	748,278
Property, plant and equipment	10	268,870
Total assets		<u>35,044,328</u>
LIABILITIES AND EQUITY		
Liabilities		
Islamic financing under Wakalah arrangements	11	4,884,900
Other liabilities	12	8,559,687
Charity fund	13	108,760
		<u>13,553,347</u>
Equity		
Share capital	14	20,000,000
Statutory reserve	15	149,098
Retained earnings		1,341,883
		<u>21,490,981</u>
Total liabilities and equity		<u>35,044,328</u>

These financial statements were approved by the Board of Directors on 8 February 2007 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Dr. Khalid Abdulla
Chief Executive Officer

The accounting policies on pages 39 to 43 and the notes on pages 44 to 50 form an integral part of these financial statements.

Statement of income for the period from 10 September 2005 (date of incorporation) to 31 December 2006 (Expressed in Bahrain Dinars)

	Notes	Period from 10 September 2005 to 31 December 2006
Income		
Profit from Mudaraba investments		791,309
Profit from Ijarah Muntahia Bittamleek		351,426
Profit from Musharaka financing		54,223
Fees income from Ijarah Muntahia Bittamleek		178,753
Fees income from Musharaka financing		33,492
Realised gains on sale of investment property fund		80,500
Realised gains on sale of investment properties		29,048
		<u>1,518,751</u>
Unrealised fair value gains on investment properties	8	994,800
Arrangement and placement fees		34,500
		<u>2,548,051</u>
Expenses		
Staff costs	16	(546,980)
General and administrative expenses		(327,989)
Pre-operating expenses written off		(132,500)
Depreciation	10	(10,223)
Finance costs	17	(34,078)
Directors' attendance fees		(5,300)
		<u>(1,057,070)</u>
Net profit for the period transferred to retained earnings	18	<u>1,490,981</u>
Earnings per share	18	<u>7 fils</u>

These financial statements were approved by the Board of Directors on 8 February 2007 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Dr. Khalid Abdulla
Chief Executive Officer

The accounting policies on pages 39 to 43 and the notes on pages 44 to 50 form an integral part of these financial statements.

Financial Statements

Statement of changes in shareholders' equity for the period from 10 September 2005 (date of incorporation) to 31 December 2006 (Expressed in Bahrain Dinars)

	Notes	Share Capital	Statutory reserve	Retained Earnings	Total
Share capital introduced by the shareholders	14	20,000,000			20,000,000
Net profit for the period		-	-	1,490,981	1,490,981
Transferred to statutory reserve	15	-	149,098	(149,098)	-
At 31 December 2006		20,000,000	149,098	1,341,883	21,490,981

Statement of cash flows for the period from 10 September 2005 (date of incorporation) to 31 December 2006 (Expressed in Bahrain Dinars)

	Notes	Period from 10 September 2005 to 31 December 2006
Operating activities		
Net profit for the period		1,490,981
Adjustments for:		
Depreciation	10	10,223
Realised gains on sale of investment property fund		(80,500)
Realised gains on sale of investment properties		(29,048)
Unrealised fair value gains on investment properties	8	(994,800)
Changes in operating assets and liabilities:		
Trade and other receivables		(748,278)
Other liabilities and charity fund		8,668,447
Net cash provided by operating activities		8,317,025
Investing activities		
Purchase of property, plant and equipment	10	(279,093)
Purchase of investment properties	8	(6,930,477)
Proceeds from sale of investment property fund		1,150,000
Proceeds from sale of investment properties		252,808
Net movement in Ijarah Muntahia Bittamleek	7	(15,150,563)
Net movement in Musharaka financing	6	(3,904,435)
Purchase of investment property funds	4	(2,929,500)
Purchase of investment in an associated undertaking	3	(270,000)
Net cash used in investing activities		(28,061,260)
Financing activities		
Islamic financing received under Wakalah arrangements	11	4,884,900
Share capital introduced by the shareholders	14	20,000,000
Net cash provided by financing activities		24,884,900
Net increase in cash and cash equivalents		5,140,665
Cash and cash equivalents, beginning of the period		-
Cash and cash equivalents, end of the period		5,140,665
Comprising: Cash and cash equivalents	2	240,198
Mudaraba investments	5	4,900,467
		5,140,665

The accounting policies on pages 39 to 43 and the notes on pages 44 to 50 form an integral part of these financial statements.

The accounting policies on pages 39 to 43 and the notes on pages 44 to 50 form an integral part of these financial statements.

Accounting Policies

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

1 Basis of preparation

The financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Board of the Company and the Bahrain Commercial Companies Law. For matters for which no AAOIFI standards exist, the Company uses the relevant International Financial Reporting Standards issued by the International Accounting Standard Board.

The financial statements have been prepared under the historical cost convention, as modified by the fair valuation of investment properties which are measured at their fair values.

The registered office of the Company is in the Kingdom of Bahrain.

The reporting currency of the Company is the Bahrain Dinar.

2 Property, plant and equipment and accumulated depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

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

Leasehold improvements	5 years
Furniture and fixtures	5 years
Office equipment	5 years
Computer hardware and software	2-3 years
Motor vehicles	3 years

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

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

The carrying values of the property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the property, plant and equipment are written-down to their recoverable amounts.

3 Investment in an associated undertaking

The investment in an associated undertaking is accounted for in the books of the Company using the equity method of accounting. This is an undertaking over which the Company generally has between 20% and 50% of the voting rights, or over which the Company has significant influence, but which it does not control. Unrealised gains on transactions between the Company and its associated undertaking are eliminated to the extent of the Company's interest in the associated undertaking; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

4 Investment property funds

Investment property funds are initially recorded at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Investment property funds are subsequently stated at their fair values. All related realised and unrealised gains or losses are included in the statement of income.

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Fair value of investments listed on active markets is determined by reference to the quoted market prices. The fair value of unquoted securities, where available, is the Company's proportionate share of the net assets of the investee company. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at cost.

5 Pre-operating expenses

Pre-operating expenses represents costs incurred prior to commencement of operations which are charged immediately to the statement of income on commencement of operations.

6 Murabaha

Balances relating to these contracts are stated net of deferred profit and provisions for impairment.

7 Mudaraba

Balances relating to these contracts are carried at cost less provision for impairment in value.

Accounting Policies (continued)

8 Musharaka financing

Musharaka financing is recorded on the basis of the Company's contribution to the musharaka transaction. Musharaka is stated at cost less provision for impairment in value.

9 Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek are recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line basis to write-off the cost over the lesser of the contract term, and the expected useful life of each asset.

10 Istisna'a financing

Istisna'a is stated at amortised cost. Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor, based on an order from the contract owner, undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed-upon price and method of settlement, whether that be in advance, by instalments or deferred to a specific future time.

11 Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at their fair values. Gains and losses arising from changes in the fair values of investment properties are included in the statement of income in the period in which they arise.

Investment properties are derecognised when they have either been disposed of, or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of an investment property are recognised in the statement of income in the period of derecognition.

12 Trade receivables

Trade receivables are carried at their anticipated realisable values. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

13 Islamic financing under Wakalah arrangements

Wakalah financing are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, these are stated at amortised cost, and any differences between proceeds (net of transaction costs) and the repayment amounts are recognised in the statement of income over the period of the Wakalah financing.

14 Trade payables

Trade payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

15 Provisions

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

16 Employee benefits

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

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

17 Revenue recognition

a) Income from Mudaraba

Income from Mudaraba is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

b) Income from Musharaka

Profit from Musharaka contracts that continue for more than one financial period are recognised when a partial or final settlement takes place and the share of losses are recognised to the extent that such losses are deducted from the Company's share of the Musharaka capital.

c) Income from Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is allocated proportionately to the financial periods over the lease term.

d) Income from Istisna'a

Income from Istisna'a is recognised on a time apportioned basis over the period of the contract.

Accounting Policies (continued)

17 Revenue recognition (continued)

e) Advisory services income and project management fees

Income from advisory services and project management fees is recognised based on the stage of completion of the service at the balance sheet date by reference to the contractual terms between the parties.

f) Property management fees

Property management fees are recorded based on agreements entered into with the owners of the property and is recognised on the accruals basis.

g) Arrangement and placement fees

Fees for arranging of Islamic financing transactions are recognised as income when the Company has fulfilled all its obligations in connection with the related transactions.

h) Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

i) Other income

Other income is accounted for on the accruals basis, unless collectibility is in doubt.

18 Foreign exchange transactions

Foreign currency transactions are recorded at the rates of exchange prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Gains or losses are taken to the statement of income.

19 Zakah

The responsibility of payment of Zakah is on the individual shareholders.

20 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balances and Mudaraba investments with original maturities of three months or less.

Notes to the financial statements for the period from 10 September 2005 (date of incorporation) to 31 December 2006

1 Organisation and principal activities

Real Estate Finance (REEF) BSC (c) ("the Company") is a closed shareholding company and operates as an Islamic financing company under license number 53073 granted by the Central Bank of Bahrain. The Company commenced commercial operations on 10 September 2005.

The principal activities of the Company include:

- Granting short and long-term financing facilities to consumers to finance the purchase and construction of real estate;
- Providing leasing facilities with an option to buy;
- Investing in real estate, industrial, agricultural and other economic sectors and dealing in the shares of established companies;
- Buying and selling of properties, developing residential and commercial land, building residential and commercial units with the intent of their subsequent sale or lease; and
- Providing property development data and studies.

The registered office of the Company is in the Kingdom of Bahrain.

2 Cash and cash equivalents

	2006 BD
Cash on hand	500
Current account balances with banks	<u>239,698</u>
	<u>240,198</u>

Notes to Financial Statements

Notes to the financial statements for the period from 10 September 2005 (date of incorporation) to 31 December 2006

3 Investment in an associated undertaking

	2006 BD
Investment during the period and at 31 December	<u>270,000</u>

During the period, the Company, in accordance with a Memorandum of Understanding dated 10 July 2006, agreed to participate in First REEF Company WLL ("Le Papillon Project") upto 45% of the equity share capital. The proposed equity share capital of Le Papillon Project is BD2,500,000. As at 31 December 2006, the Company has advanced BD270,000 to Le Papillon with the balance of BD855,000 reflected as a capital commitment at the balance sheet date (Note 21).

4 Investment property funds

	2006 BD
Purchases during the period	2,929,500
Disposals during the period	(1,069,500)
At 31 December	<u>1,860,000</u>
Comprising:	
Shares in Bahrain Investment Wharf BSC(c)	<u>1,860,000</u>

During the period, the Company, in accordance with a commitment letter dated 28 February 2006, agreed to participate in the SPV of Bahrain Investment Wharf BSC(c) (BIW), as one of BIW's strategic investors. As at 31 December 2006, the Company has an unpaid contribution amounting to BD1,000,000 which is reflected in other liabilities (Note 12).

5 Mudaraba investments

	2006 BD
Shamil Bank of Bahrain	1,900,467
Khaleeji Commercial Bank	<u>3,000,000</u>
	<u>4,900,467</u>

Mudaraba investments represent amounts placed with financial institutions which have a maturity of less than 90 days. Profit from Mudaraba investments are recognised over the period of the related investment.

6 Musharaka financing

	2006 BD
Musharaka financing during the period and at 31 December	<u>3,904,435</u>
Comprising:	
Retail	766,154
Commercial	<u>3,138,281</u>
	<u>3,904,435</u>

7 Ijarah Muntahia Bittamleek

	2006 BD
Gross payments during the period	17,383,131
Repayments received during the period	(2,232,568)
Net payments during the period	<u>15,150,563</u>

8 Investment properties

	2006 BD
Additions during the period	6,930,477
Disposals during the period	(223,760)
Unrealised fair value gains taken to the statement of income	994,800
At 31 December	<u>7,701,517</u>

Investment properties comprise 5 apartments purchased in a building in Juffair, Kingdom of Bahrain and 85 apartments purchased in Tala Island, Kingdom of Bahrain. The properties are currently under construction.

In December 2006, the Company obtained a valuation of its investment properties located in Tala Island from an independent real estate valuer. In case of the property located in Juffair, the management has revalued it based on its assessment of recent sale prices of similar properties. The difference between the carrying value of the investment properties and the fair value amounting to BD994,800 has been included in the statement of income.

9 Trade and other receivables

	2006 BD
Trade receivables	252,808
BIW receivable	255,000
Profit receivable on Mudaraba investments	3,383
Prepayments and other receivables	<u>237,087</u>
	<u>748,278</u>

The BIW receivable includes an amount of BD115,000 due to the Company in respect of identifying another strategic investor to invest in the BIW project and BD140,000 representing the discount due to the Company from BIW.

Notes to Financial Statements

Notes to the financial statements for the period from 10 September 2005 (date of incorporation) to 31 December 2006

10 Property, plant and equipment

	Leasehold improvements BD	Furniture and fixtures BD	Office equipment BD	Computer hardware and software BD	Motor vehicles BD	Total BD
Cost						
Additions during the period and at 31 December 2006	196,924	13,896	8,469	51,424	8,380	279,093
Accumulated depreciation						
Charge for the period and at 31 December 2006	2,346	2,173	1,406	4,065	233	10,223
Net book amount						
At 31 December 2006	<u>194,578</u>	<u>11,723</u>	<u>7,063</u>	<u>47,359</u>	<u>8,147</u>	<u>268,870</u>

The Company operates from leased premises rented at a monthly rental of BD1,436.

11 Islamic financing under Wakalah arrangements

	2006 BD
Emirates Islamic Bank (a)	1,884,900
Khaleeji Commercial Bank (b)	<u>3,000,000</u>
	<u>4,884,900</u>

a) This Wakalah finance obligation is repayable in one bullet payment on its anniversary date in March 2007. The Wakalah finance obligation bears profit at the rate of 2.5% per annum over three months LIBOR.

b) This Wakalah finance obligation is repayable in one bullet payment on its anniversary date on 27 December 2007. The Wakalah finance obligation bears profit at the rate of 1.35% per annum over six months BIBOR.

12 Other liabilities

	2006 BD
Tala Island payable	3,973,000
Musharaka financing and Ijarah Muntahia Bittamleek payable	3,185,394
BIW payable (Note 4)	1,000,000
Accruals	223,016
Other payables	125,255
Mal Suites payable	<u>53,022</u>
	<u>8,559,687</u>

13 Charity fund

The share capital received from shareholders before the date of commencement of operations of the Company was invested in money market funds in banks and earned a profit of BD115,260. The management of the Company has therefore not treated this profit as an income but has transferred it to a charity fund which has been earmarked solely for charitable purposes in accordance with the requirements of the Sharia'a regulations. The Company has utilised BD6,500 during the period for charitable purposes as required by the Sharia'a regulations.

14 Share capital

	2006 BD
Authorised	
400,000,000 shares of BD0.100 each	<u>40,000,000</u>
Issued and fully paid-up	
200,000,000 shares of BD0.100 each	<u>20,000,000</u>

The Company has only one class of equity shares and the holders of the shares have equal voting rights.

Additional information on shareholding pattern

The names and nationalities of the major shareholders, and the number of shares held in which they have an interest of 5% or more at 31 December 2006 are as follows:

	Nationality	Number of shares	% holding
National International Holding KSC(c)	Kuwaiti	40,000,000	20%
Global Investment House KSC(c)	Kuwaiti	20,000,000	10%
Al Khaleej Development Company BSC	Bahraini	20,000,000	10%
Ossis Property Developers BSC(c)	Bahraini	20,000,000	10%
Safi Financial Services	Kuwaiti	20,000,000	10%
Al Namou Al Aqari Limited Co.	Saudi	14,000,000	7%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	11,000,000	5.5%

Notes to Financial Statements

Notes to the financial statements for the period from 10 September 2005 (date of incorporation) to 31 December 2006

15 Statutory reserve

Under the provisions of the Bahrain Commercial Companies Law, an amount equivalent to 10% of the Company's net profit before appropriations is required to be transferred to a non-distributable reserve account until such time as a minimum of 50% of the share capital is set aside. During the period, an amount of BD149,098 has been transferred to the statutory reserve.

16 Staff costs

Staff costs includes bonus amounting to BD135,000 payable for the period ended 31 December 2006 to the Company's employees in accordance with the approval obtained from the Company's Board of Directors on 8 February 2007.

17 Finance costs

Period from
10 September 2005
to 31 December 2006

	BD
Financing costs under Wakalah arrangements	<u>34,078</u>

18 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued during the period.

	2006 BD
Net profit attributable to shareholders	<u>1,490,981</u>
Weighted average number of ordinary shares	<u>200,000,000</u>
Basic and diluted earnings per share	<u>7 fils</u>

19 Dividends and appropriations

The Board of Directors have not proposed to pay any dividend for the period ended 31 December 2006 but have proposed payment of Directors' remuneration amounting to BD24,000 for the shareholders approval.

20 Related party transactions

Related parties consist of the Shareholders and Directors and their close family members, and businesses under their control. The Company's transactions with related parties are authorised by the management.

The amounts due from related parties arise in the normal course of business.

(i) A summary of the significant transactions with related parties for the period ended 31 December 2006 is as follows:

	Period from 10 September 2005 to 31 December 2006	BD
Ijarah Muntahia Bittamleek		
Members of the Al Matrook family	1,003,755	
Majed Abdulla Al Khan	142,712	
Office rent paid to Al Khaleej Development Company BSC(c)	23,783	

(ii) A summary of the amounts due from related parties at 31 December 2006 is as follows:

	2006 BD
Amounts due from related parties	
Ijarah Muntahia Bittamleek	
Members of the Al Matrook family	1,003,755
Majed Abdulla Al Khan	142,280

21 Capital commitments

Capital commitments contracted for at the balance sheet date is as follows:

	2006 BD
Investment in Le Papillon Project (Note 3)	855,000
Purchase of a motor vehicle	30,000
Musharaka financing	<u>70,816</u>
	<u>955,816</u>

22 Financial assets and liabilities and risk management

Financial assets and liabilities carried on the balance sheet include cash and cash equivalents, Mudaraba investments, Ijarah Muntahia Bittamleek, Musharaka financing, investment property fund, trade and other receivables, Islamic financing under Wakalah arrangements and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash is placed with a national bank with a good credit rating.

Currency rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's foreign currency transactions are predominantly in GCC currencies which are effectively pegged to the Bahrain Dinar. Accordingly, the management does not consider the Company to have a significant currency risk.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company's management rigorously monitors liquidity requirements on a regular basis to help ensure that sufficient funds are available to meet all liabilities as they fall due.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of the Company's financial assets and liabilities are not materially different from their carrying amounts.

23 Comparative balances

Comparative figures have not been presented as this is the Company's first period of operations.