

2017

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HH Shaikh Khalifa bin Salman Al Khalifa  
Prime Minister



HM Shaikh Hamad bin Isa Al Khalifa  
King of Bahrain



HH Shaikh Salman bin Hamad Al Khalifa  
Crown Prince  
Deputy Supreme Commander

**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 REALIZE  
THE GREATEST RESULTS**







## 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.

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.

**WE BELIEVE THAT THE  
GREATEST AND MOST  
DURABLE RESULTS ARE  
ACHIEVED THROUGH  
PARTNERSHIP AND VALUE-  
SHARING - ACROSS SECTORS  
AND ON ALL LEVELS**









## THE REEF MALL

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.

In the span of 2007, Reef took its aim of being a pioneer in creating a self sustaining business 'eco-system' of services from concept to reality with the launch of the Reef Real Estate Mall. Reef has designed its new headquarters to be a one-stop shop environment, whereby clients looking to enter the real estate market will need just one point of access – the Reef Real Estate Mall. Within the Mall, Reef has created a dedicated alliance zone that houses a series of real estate related services that will benefit clients in key areas. The alliances include property brokers, architects and interior design consultancies, Takaful providers and real estate developers. Reef, of course, caps this service provision with its financing solutions designed to cater to retail, commercial, and investment real estate requirements.

As such, the Reef business model supports choice and catalyzes sustainable growth and prosperity sharing through targeted funding and cross sector expansion. 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 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**







# ANNUAL HIGHLIGHTS 2007

## Financial

- Reef increased its net income by 87.5 % to reach BD 2.8 million in its second year of operations.
- Reef realized operating revenue of BD 5.5 million, more than doubling last year's revenues.
- Through our core line of business, Reef provided a mortgage income to total income ratio of 59%
- Reef maintained a healthy expense to income ratio of 49%
- Return on equity was 11.8% up from last year's 6.9%
- Reef delivered a return on capital of 14.0% far surpassing last year's results of 7.5%
- Earnings Per Share doubled to reach 14 fils per share.

## Operational

- Launched the Reef Real Estate Mall, the company's headquarters and the region's first one stop shop for real estate.
- Provided 227 families with financing to purchase or build their own homes.
- Launch of interdepartmental process optimization efforts to streamline and improve Reef's service delivery and to further activate our brand promise of being a financier of choice.



# CHAIRMAN'S STATEMENT

**On behalf of the Board of Directors, it is my privilege to present Reef's second annual report for the year ended 31 December 2007.**

2007 has proven a year of significant growth for Reef. Both internally and externally Reef has made marked strides towards establishing its place as a differentiated real estate finance provider.

Internally, the year encompassed a number of developments central to Reef; our work in cementing the foundations for a future of sustained differentiation is a prime example of this. This exercise is a core consideration for our shareholders; an engagement in ensuring Reef's sustainability and long term development as driven by the demands of our community and by business best practice. Simply, we believe investing in Reef's sustainability will be a differentiating factor for us and an enabler in delivering consistently high values to customers, maintaining the highest ethical and corporate governance standards, and navigating an increasingly competitive and demanding environment. In this regard, it is appropriate to thank the business, operational, and management teams that solidified our financing systems and operating principles to garner opportunities for greater flexibility and procedural quality in dealing with our clients.

Outwardly, I am proud to report Reef's delivery of several strategic brand promises. The successful launch of the Reef Real Estate Mall is a material step towards our vision of being providers of a holistic model of financing, networking and development that will inspire and empower the real estate market. In the same reign, Reef's build-up of strategic partners and alliances, including some of the Kingdom's most noted developments is a testament to our belief in the Reef business model and to our ability to provide value added services to the real estate community. This belief and commitment has resulted in gainful business, with Reef's net income standing at close to BD 2.8 million an increase of 87.5% from last year. Profits from Reef's two main financing products, Ijara Muntahia Biltamleek and Musharaka also saw a significant increase, collectively contributing BD 3,277,698 as reported within the enclosed Financial Review. By year end, Reef's investment portfolio grew by 17.4% to reach BD 39.5 million. Also from a financial perspective, Reef in partnership with Calyon, undertook one of the Kingdom's most innovative and competitive financing transactions. Under the terms of the transaction, Calyon will extend US\$ 150 million to Reef, through a warehousing and securitization process, positioning Reef for greater financing reach in 2008. Moreover, the additional funds will ensure Reef remains a key player and contributor to the health and growth of the home finance sector in the Kingdom of Bahrain.



" Investing in Reef's sustainability will be a differentiating factor for us and an enabler in delivering consistently high values to customers. "

The results we achieved in 2007 were the product of exceptional work by our team of people, who have proven an inspiration and driving force for Reef. By year end, Reef saw Dr Khalid Abdulla leaving his post as Chief Executive Officer to join the company's board of directors. Before welcoming his contributions in this capacity, it is with due regard that we acknowledge and thank him for the fingerprints of success imparted on Reef in the critical stages of its establishment. In his stead, we welcome the sure contributions and advancements of Mr. Mahmood Al Koofi as the newly appointed CEO of Reef.

Looking forward, we know we have vastly more to achieve and prove. Armed with an added year of experience, a better understanding of our clientele, a motivated team of people, and the support of strategic business partners we know Reef will bring greater value to its stakeholders in 2008 by building a profitable business of scale.

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 program, 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

# BOARD OF DIRECTORS



Ali Al Baghli  
Board Chairman



Omar El -Quqa  
Vice Chairman



Khalid Abdulla  
Board Member



Aidarous Al Bar  
Board Member



Nasser AlGraibelh  
Board Member



Faisal Al Matrook  
Board Member



Mohammed Al Tawash  
Board Member

# MANAGEMENT REVIEW

**On behalf of the Executive Management team, it is our pleasure to present this review of Reef's organizational and financial achievements for the year ended 31 December 2007.**

The Bahrain real estate sector has proven to be a vibrant and profitable one for its participants. Increases in regional use of GCC funds, enhanced freehold and residency rights, and growing populations have all been key contributors to the sector's development.

On the grounds of such favorable market conditions and in follow-up to a highly successful inauguration year, 2007 presented itself as an eventful and highly driven year for Reef. The company undertook a number of business and operational initiatives designed to bring Reef closer to its vision.

Our belief that Reef carries the potential for being far more than just a finance provider has proven central to our corporate progress. A key development in this regard was the launch of the Reef Real Estate Mall, a first of its kind initiative in the region. The Real Estate Mall, which is also our headquarters, comes as a tangible realization of our vision to be a keystone entity; an organization which 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. As such the mall brings together real estate brokers, developers, architects, interior designers, and insurance providers alongside prospective clients, creating a sustainable network for sector development. The Reef model thrives on being a touch point for all real estate needs and for sector growth at large.

## BUSINESS & INVESTMENT

Acknowledging the challenge of funding for Reef as a company, the signing of our partnership with Calyon is all the more significant in terms of providing Reef with the means to avail of prospective financing opportunities. Beyond our retail and commercial business which resulted in profits of almost BD2.8 million, Reef also undertook investments in Tala Island and the Bahrain Investment Wharf (BIW), both highly proclaimed projects at a national level. Reef made use of a staged sales strategy in its investment in Tala Island, aimed at realizing capital gain on the property holding. Today, Reef has realized BD 794,194 in income from this strategic investment and is confident that the remaining sales of the property in 2008 will result in even higher proceeds as the development is taken progressively closer to being a livable reality. Reef's investment in BIW, which covers a total area of 1.7 million square meters within the Hidd industrial zone and is designed according to industrial, business, and residential areas promises to be a significant contribution to returns in 2008. At aggregate levels, Reef's total assets have grown by approximately 20.5% to reach BD 42,242,418 whilst profits increased by an impressive 87.5% reaching BD 2,794,997 from last year's reported profits of BD 1,490,981.

## OPERATIONS

In order to further the sustainability of Reef's sources of differentiation in the real estate market, 2007 involved a great deal of inward focus whereby the company undertook an onslaught of improvements designed to ensure the next chapter of Reef's growth. Operationally, this involved significant interdepartmental process optimization efforts. Pulling together the central chords of Reef's business model enabled the company to shed inefficiencies and better develop



capabilities such as speed of processing and customer management. To that end, Reef also saw greater automation of frontline mortgage finance processes and streamlining of these with our back-end systems. To match procedural improvements, Reef is also revamping its operational policies to ensure they are flexible enough to keep up with market developments as and when they occur. Reef has also begun development of a property database illustrating market trends in property trading and values. Finally, general administrative expenses at Reef continued to be controlled through rigorous management of day to day expenses and without jeopardizing the value of Reef's operational activities.

## RISK MANAGEMENT

In 2007, Reef continued to strengthen its risk management framework in line with changing market conditions and regulatory requirements. Reef also reviewed its previously introduced credit risk policies and procedures, to ensure their ongoing effectiveness at mitigating our overall risk. Policies and procedures for managing the Bank's liquidity risk market risk were also reviewed and strengthened during the year. Furthermore, Reef continues to work with the CBB and other Islamic institutions to discuss the most appropriate methodology for handling Shariah compliance issues relating to market risk.

## PEOPLE & PARTNERS

Two of the most distinguishing cornerstones of the Reef brand identity are people and partnership. For us at Reef, the term 'people' encompasses more than simply Reef's employees; it is also the clients we cater to, the affiliates we associate with, and the Bahraini society at large which we strive to contribute to as part of our corporate social responsibility. This is why our notion of partnership also extends to all the aforementioned groups of people, and why for us partnership is synonymous with value creation and sharing within the real estate sector as a whole.

## LOOKING FORWARD

The close of the 2007 fiscal year comes with tangible evidence of Reef's devotion throughout the year to furthering its business reach and to securing the organizational foundations that ensure we prosper in the 2008 and beyond.

I would, at this point, like to extend my sincere thanks and gratitude to the Central Bank of Bahrain for its forward-looking directives and assistance, to the strategic alliances and partners that are fundamental to Reef's business, to Reef's Board members for their support of Reef, to the team of employees who are at the driving force of Reef's growth, and of course to our valued clientele.

I stand with the confidence and knowledge that Reef with its value-based drive, business acumen, and methodological sources of differentiation is poised to capture a highly successful and prosperous future.



Mahmood Al Koofi  
Chief Executive Officer

" Our belief that Reef carries the potential for being far more than just a finance provider has proven central to our corporate progress. "



# EXECUTIVES

## **Mahmood Al Koofi – Chief Executive Officer**

MBA in business administration (Hull University, UK), an executive leadership and strategic management certificate (Columbia School of Business, USA), an engineering diploma (Université de Caen, France) and advanced management diploma (Bahrain University). More than 25 years of consultancy, business development, and strategic management experience.



## **A. Nasser Abdulrahman – Chief Business Officer**

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



## **Ahmed Al Kooehji – Chief Operations Officer**

B.Sc Engineering (University of Bahrain) and MBA from University of Glamorgan, UK. Over 12 years of experience in information communication technology, business processing, business and technical consulting, and project management.



# SHARIAH ADVISOR

## **Sh. Dr. Fareed Mohammed Hadi - Sharia 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.

**OUR COMMITMENT TO ACCOMPLISHMENT IS BASED ON EFFECTIVE GOAL IMPLEMENTATION. WE ARE DRIVEN TO BE THE BEST OF BREED, AND WE DEDICATE OURSELVES TO REALIZING EVERY GOAL THAT WE SET**









# CORPORATE SOCIAL RESPONSIBILITY

Reef is a firm believer in the creation and sharing of value, at a personal level, corporate level, and a wider social level. In staking a position as a keystone, or founding organization, we consider our sphere of influence and role in society in a wider context. Accordingly, our actions are always in consideration of the impact they may have on people, the quality of their lives, and on the scale of social contribution towards bettering the community we belong to.

Capping our directives in terms of corporate social responsibility is our commitment to doing business responsibly. For us, this translates into the pursuit of locally relevant strategies that promote the health of the business community, through to operational excellence in the development of efficient platforms and tools for value sharing, and in connecting a range of industry participants and clients towards mutual benefit.

Reef participated in a number of key social initiatives during 2007. 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.

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.

# CORPORATE GOVERNANCE

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 a Management Committee.

## 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

Dr. Khalid Abdulla - Board Member  
Khaleej Development Company BSC  
In replacement of Majed Alkhan

Naser Al Gharibah - Board Member  
Global Investment House  
In replacement of Khalil Ebrahim Al Aali

Mohammed Abdulrasool Al Tawash - Board Member

## EXECUTIVE COMMITTEE

Mr. Faisal Al Matrook - Chairman  
Majed Alkhan - Member  
Mr. Khalil Ebrahim Al Aali - Member  
Mr. Aidrous Al Bar - Member

## AUDIT COMMITTEE

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

Internal Auditors - KPMG Fakhro

## MANAGEMENT COMMITTEE

Mr. Mahmood Al Koofi - Head  
Mr. A. Nasser A. Rahman  
Mr. Ahmed Al Kooheji  
Ms. Fathia Al Awadhi  
Mr. Hesham Abdulla

## 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.

# SHARI'AH SUPERVISORY ADVISOR REPORT

Bismi Allahi alrrahmani alrraheemi

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.

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, 2007. 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.

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, 2007 are in compliance with the rules and principles of the Islamic Shari'ah.

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



28 Safar 1429  
6 March 2008

## Reef Real Estate Finance Co. BSC (c)

Commercial registration no. 58073

### Directors

Ali Ahmed Al Baghli  
Omar Mahmood El-Quqa  
Faisal Ali Almatrook  
Aidarous Salem Aidarous Albar  
Khalil Ebrahim Ali Al A'Ali  
Majed Abdulla Al-Khan  
  
Mohammed Abdulrasool Altawash  
Dr Khalid Abdulla

Chairman  
Vice-Chairman  
Director  
Director  
Director  
Director  
(resigned with effect from 7 October 2007)  
Director  
Chief Executive Officer  
(resigned with effect from 30 September 2007  
and reappointed as Acting CEO from October  
to 31 January 2008)  
Chief Executive Officer (appointed with effect  
from 1 February 2008)

Mahmood Al Koofi

### Sharia'a Supervisory Advisor

Dr Fareed Hadi

### Registered office

Block 410  
Road 1010, Building 483  
PO Box 18599  
Manama, Kingdom of Bahrain

### Bankers

Shamil Bank  
Kuwait Finance House  
Khaleeji Commercial Bank

### Auditors

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

## AUDITOR'S REPORT

We have audited the accompanying financial statements of Reef Real Estate Finance Co. BSC (c) ("the Company"), which comprise the balance sheet as at 31 December 2007, the statement of income, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## RESPONSIBILITY OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

These financial statements and the Company's undertaking to operate in accordance with Islamic Sharia'a rules and principles are the responsibility of the Directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

## **BASIS OF OPINION**

We conducted our audit in accordance with the Auditing Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

## **OPINION**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2007, and the results of its operations, the changes in shareholders' equity and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Sharia'a Rules and Principles as determined by the Sharia'a Advisor of the Company.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

Further, as required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law 2006, 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 2007.



Manama, Kingdom of Bahrain  
18 March 2008  
96067

# BALANCE SHEET AT 31 DECEMBER 2007

(EXPRESSED IN BAHRAINI DINARS)

	Notes	2007	2006 (as restated)
<b>ASSETS</b>			
Cash and cash equivalents	2	1,200,106	240,198
Investments:			
Investment in an associated undertaking	3	270,000	270,000
Investment property fund	4	2,000,000	1,860,000
Mudaraba investments	5	2,079,291	4,900,467
Musharaka financing	6	3,468,865	3,904,435
Ijarah Muntahia Bittamleek	7	27,907,172	14,989,187
Investment properties	8	3,750,980	7,701,517
Other assets	9	491,060	748,278
Ijara Muntahia Bittamleek receivables		776,347	161,376
Property, plant and equipment	10	298,597	268,870
<b>Total assets</b>		<b>42,242,418</b>	<b>35,044,328</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Islamic financing	11	13,771,650	4,884,900
Other liabilities	12	4,757,666	8,559,687
Charity fund	13	66,760	108,760
		<b>18,596,076</b>	<b>13,553,347</b>
<b>Shareholders' equity</b>			
Share capital	14	20,000,000	20,000,000
Statutory reserve	15	428,598	149,098
Investment property fair value reserve		1,444,730	994,800
Retained earnings		1,773,014	347,083
		<b>23,646,342</b>	<b>21,490,981</b>
<b>Total liabilities and shareholders' equity</b>		<b>42,242,418</b>	<b>35,044,328</b>

These financial statements were approved by the Board of Directors on 18 March 2008 and signed on their behalf by:



Ali Ahmed Al Baghli  
Chairman



Mahmood Al Koofi  
Chief Executive Officer

The accounting policies on pages 34 to 39 and the notes on pages 40 to 53 form an integral part of these financial statements.



# STATEMENT OF INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2007

(EXPRESSED IN BAHRAINI DINARS)

	Notes	Year ended 31 December 2007	Period from 10 September 2005 to 31 December 2006 (as restated)
<b>Income</b>			
Profit from Mudaraba investments		119,987	791,309
Profit from Ijarah Muntahia Bittamleek		2,811,043	512,802
Profit from Musharaka financing		168,276	54,223
Fees income from Ijarah Muntahia Bittamleek		298,359	178,753
Fees income from Musharaka financing		20	33,492
Realised gains on investment property fund	4	140,000	80,500
Realised gains on sale of investment properties		847,751	29,048
Unrealised fair value gains on investment properties		1,089,566	994,800
Other income		55,500	34,500
		<b>5,530,502</b>	<b>2,709,427</b>
<b>Expenses</b>			
Staff costs	16	(595,577)	(546,980)
General and administrative expenses		(431,466)	(327,989)
Pre-operating expenses written-off		-	(132,500)
Depreciation of Ijarah Muntahia Bittamleek	7	(776,347)	(161,376)
Depreciation of property, plant and equipment	10	(68,630)	(10,223)
Finance costs	17	(855,835)	(34,078)
Directors' attendance fees		(7,650)	(5,300)
		<b>(2,735,505)</b>	<b>(1,218,446)</b>
<b>Net profit for the year/period transferred</b>			
<b>to retained earnings</b>	18	<b>2,794,997</b>	<b>1,490,981</b>
<b>Earnings per share</b>	18	<b>14 fils</b>	<b>7 fils</b>

These financial statements were approved by the Board of Directors on 18 March 2008 and signed on their behalf by:



Ali Ahmed Al Baghli  
Chairman



Mahmood Al Koofi  
Chief Executive Officer

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(EXPRESSED IN BAHRAINI DINARS)

	Notes	Share capital	Statutory reserve	Investment property fair value 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
Unrealised fair value gains on investment properties	29	-	-	994,800	(994,800)	-
Transferred to statutory reserve	15	-	149,098	-	(149,098)	-
<b>At 31 December 2006 (as restated)</b>	<b>29</b>	<b>20,000,000</b>	<b>149,098</b>	<b>994,800</b>	<b>347,083</b>	<b>21,490,981</b>
<b>At 1 January 2007 (as restated)</b>	<b>29</b>	<b>20,000,000</b>	<b>149,098</b>	<b>994,800</b>	<b>347,083</b>	<b>21,490,981</b>
Realised gains on sale of investment properties transferred to the statement of income		-	-	(639,636)	-	(639,636)
Net profit for the year		-	-	-	2,794,997	2,794,997
Unrealised fair value gains on investment properties		-	-	1,089,566	(1,089,566)	-
Transferred to statutory reserve	15	-	279,500	-	(279,500)	-
<b>At 31 December 2007</b>		<b>20,000,000</b>	<b>428,598</b>	<b>1,444,730</b>	<b>1,773,014</b>	<b>23,646,342</b>

The accounting policies on pages 34 to 39 and the notes on pages 40 to 53 form an integral part of these financial statements.

# STATEMENT OF CASH FLOW

## FOR THE YEAR ENDED 31 DECEMBER 2007

(EXPRESSED IN BAHRAINI DINARS)

	Notes	Year ended 31 December 2007	Period from 10 September 2005 to 31 December 2006
<b>Operating activities</b>			
Net profit for the year/period		2,794,997	1,490,981
Adjustments for:			
Depreciation on property, plant and equipment	10	68,630	10,223
Depreciation on Ijara Muntahia Bittamleek assets, net	7	776,347	161,376
Realised gains on investment property fund		(140,000)	(80,500)
Realised gains on sale of investment properties		(847,751)	(29,048)
Unrealised fair value gains on investment properties	8	(1,089,566)	(994,800)
Finance costs	17	855,835	34,078
Changes in operating assets and liabilities:			
Ijara Muntahia Bittamleek receivables		(776,347)	(161,376)
Other assets		257,217	(748,278)
Other liabilities and charity fund		(4,187,791)	8,668,447
Net cash (used in)/provided by operating activities		(2,288,429)	8,351,103
<b>Investing activities</b>			
Purchase of property, plant and equipment	10	(174,463)	(279,093)
Purchase of investment properties	8	-	(6,930,477)
Proceeds from sale of investment property fund		-	1,150,000
Proceeds from sale of property, plant and equipment		76,107	-
Proceeds from sale of investment properties		5,248,218	252,808
Net movement in Ijarah Muntahia Bittamleek		(13,532,956)	(15,150,563)
Net movement in Musharaka financing		435,570	(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		(7,947,524)	(28,061,260)
<b>Financing activities</b>			
Islamic financing received, net		8,886,750	4,884,900
Share capital introduced by the shareholders	14	-	20,000,000
Finance costs paid	17	(512,065)	(34,078)
Net cash provided by financing activities		8,374,685	24,850,822
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,861,268)</b>	<b>5,140,665</b>
Cash and cash equivalents, beginning of the year/period		5,140,665	-
Cash and cash equivalents, end of the year/period		3,279,397	5,140,665
Comprising:			
Cash and cash equivalents	2	1,200,106	240,198
Mudaraba investments	5	2,079,291	4,900,467
		3,279,397	5,140,665

The accounting policies on pages 34 to 39 and the notes on pages 40 to 53 form an integral part of these financial statements.

# SIGNIFICANT ACCOUNTING POLICIES

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

## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) as the Company has been licensed by the Central Bank of Bahrain as an Islamic financing company. However, in accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Company uses the relevant International Financial Reporting Standard.

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

## 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.

# SIGNIFICANT ACCOUNTING POLICIES

continued

## 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. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at cost. All related realised gains or losses are included in the statement of income; unrealised gains or losses are taken to the fair value reserve in shareholders' equity.

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. MUDARABA INVESTMENTS

Mudaraba investments are carried at cost less provision for impairment in value.

# SIGNIFICANT ACCOUNTING POLICIES

continued

## 7. 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.

## 8. IJARAH MUNTAHIA BITTAMLEEK

Ijarah Muntahia Bittamleek which comprise of land and buildings are initially recorded at cost. Depreciation is provided on a straight-line basis on all Ijarah Muntahia Bittamleek other than land (which is deemed to have indefinite life), at rates calculated to write-off the cost of each asset over the period of lease.

## 9. INVESTMENT PROPERTIES

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at their fair values. Subsequent to initial recognition, investment properties are measured at their fair values and changes in fair value are recognised in the consolidated statement of income. In accordance with AAOIFI, such gains or losses are appropriated to an investment property fair value reserve at the year end. Upon realisation of these gains/losses, these are transferred to the statement of income from the investment property fair value reserve. 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.

## 10. ISLAMIC FINANCING

Islamic 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 financing.

## 11. 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.

## 12. 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.

# SIGNIFICANT ACCOUNTING POLICIES

continued

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.

## 13. IMPAIRMENT OF FINANCIAL ASSETS

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

For investment property funds, reversal of impairment losses is recorded as increases in cumulative changes in fair value through shareholders' equity.

## 14. ESTIMATION UNCERTAINTY

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is in relation to impairment of financial assets discussed below:

The Company reviews its doubtful financial contracts and investments on a quarterly basis to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

## 15. REVENUE RECOGNITION

### a) Income from Mudaraba contracts

Income from Mudaraba contracts is recognised to the extent profits are declared by the Mudarib.

# SIGNIFICANT ACCOUNTING POLICIES

continued

## **b) Profit from Musharaka contracts**

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 in order to provide a constant rate of return over the lease term.

## **d) 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.

## **e) 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.

## **f) Arrangement and placement fees**

Fees for arrangement of Islamic financing transactions for and on behalf of other parties are recognised as income when the Company has fulfilled all its obligations in connection with the related transactions.

## **g) Dividend income**

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

## **h) Other income**

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

## **16. EARNINGS PROHIBITED BY SHARIA'A**

The Company is committed to avoid recognising any income generated from non-Islamic sources. Any earnings prohibited by Sharia'a are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Religious Supervisory Advisor.



# SIGNIFICANT ACCOUNTING POLICIES

continued

## 17. 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. Any translation differences are taken to the statement of income.

## 18. ZAKAH

The responsibility of payment of Zakah is on the owners. Zakah payable is computed by the Company on the basis of the method prescribed by the Company's Sharia'a Advisor and in line with AAOIFI standards and notified to owners annually.

## 19. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balances and short-term liquid investments including Mudaraba investments with original maturities of three months or less.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Reef Real Estate Finance Co. 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 ("CBB"). 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 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 Company's activities are regulated by the CBB and supervised by a Supervisory Advisor whose role has been defined by the Board of Directors.

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

## 2. CASH AND CASH EQUIVALENTS

	2007 BD	2006 BD
Cash on hand	500	500
Current account balances with banks	1,199,606	239,698
	<b>1,200,106</b>	240,198

## 3. INVESTMENT IN AN ASSOCIATED UNDERTAKING

	2007 BD	2006 BD
As at 1 January and 31 December	270,000	270,000

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 3. INVESTMENT IN AN ASSOCIATED UNDERTAKING (Continued)

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 2007, the Company has advanced BD270,000 to Le Papillon Project with the balance of BD855,000 reflected as a capital commitment at the balance sheet date (Note 22). As the Le Papillon Project is still to commence full fledged commercial operations, the Company’s investment has been stated at cost.

### 4. INVESTMENT PROPERTY FUNDS

	2007 BD	2006 BD
Opening balance	1,860,000	-
Purchases during the year/period	-	2,929,500
Realised gains taken to statement of income	140,000	-
Disposals during the year/period	-	(1,069,500)
At 31 December	2,000,000	1,860,000
Comprising: Shares in Bahrain Investment Wharf BSC (c) (“BIW”)	2,000,000	1,860,000

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.

### 5. MUDARABA INVESTMENTS

	2007 BD	2006 BD
Shamil Bank	-	1,900,467
Kuwait Finance House	2,003,891	-
Khaleeji Commercial Bank	75,400	3,000,000
	2,079,291	4,900,467

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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 6. MUSHARAKA FINANCING

	2007 BD	2006 BD
Opening balance	3,904,435	569,423
Gross payments during the year/period	1,170,199	3,335,012
Repayments during the year/period	(1,600,698)	-
	3,473,936	3,904,435
Provisions	(5,071)	-
At 31 December	3,468,865	3,904,435
Comprising:		
Retail	785,213	766,154
Commercial	2,683,652	3,138,281
	3,468,865	3,904,435

### 7. IJARAH MUNTAHIA BITTAMLEEK

	Land	Buildings	2007 Total BD	2006 (as restated) BD
<b>Cost</b>				
Opening balance	6,864,237	8,124,950	14,989,187	-
Additions	9,139,251	12,463,332	21,602,583	17,381,540
Repayments	(4,051,224)	(3,815,098)	(7,866,322)	(2,230,977)
At 31 December	11,952,264	16,773,184	28,725,448	15,150,563
<b>Depreciation</b>				
Impairment provision for the year/period	-	(41,929)	(41,929)	-
Provided during the year/period	-	(776,347)	(776,347)	(161,376)
At 31 December	-	(818,276)	(818,276)	(161,376)
<b>Net book amount</b>				
At 31 December	11,952,264	15,954,908	27,907,172	14,989,187

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 8. INVESTMENT PROPERTIES

	2007 BD	2006 BD
Opening balance	7,701,517	-
Purchases during the year/period		6,930,477
Disposals during the year/period	(5,040,103)	(223,760)
Unrealised fair value gains taken to the investment property fair value reserve	1,089,566	994,800
At 31 December	<b>3,750,980</b>	7,701,517

In December 2007, the Company obtained a valuation of its investment properties from an independent real estate valuer. The difference between the carrying value of the investment properties and the fair value amounting to BD1,089,566 (2006: BD994,800) has been initially credited to the statement of income and, thereafter, in accordance with AAOIFI credited to investment property fair value reserve in shareholders' equity out of retained earnings.

The investment properties are mortgaged with the Company's bankers against Wakalah financing obtained (Note 11).

### 9. OTHER ASSETS

	2007 BD	2006 BD
Trade receivables	367,589	252,808
BIW receivable	-	255,000
Profit receivable on Mudaraba investments	2,334	3,383
Prepayments and other receivables	121,137	237,087
	<b>491,060</b>	748,278

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements BD	Furniture and fixtures BD	Office equipment BD	Computer hardware and software BD	Motor vehicles	Total BD
<b>Cost</b>						
At 1 January 2007	196,924	13,896	8,469	51,424	8,380	279,093
Additions	24,753	37,780	36,989	46,441	28,500	174,463
Disposals	(72,810)	(8,173)	(1,085)	-	-	(82,068)
At 31 December 2007	148,867	43,503	44,373	97,865	36,880	371,488
<b>Accumulated depreciation</b>						
At 1 January 2007	2,346	2,173	1,406	4,065	233	10,223
Charge for the year	23,705	7,033	6,936	22,621	8,335	68,630
Disposals	(4,039)	(1,687)	(236)	-	-	(5,962)
At 31 December 2007	22,012	7,519	8,106	26,686	8,568	72,891
<b>Net book amount</b>						
<b>At 31 December 2007</b>	<b>126,855</b>	<b>35,984</b>	<b>36,267</b>	<b>71,179</b>	<b>28,312</b>	<b>298,597</b>
At 31 December 2006	194,578	11,723	7,063	47,359	8,147	268,870

The Company operates from premises leased at a monthly rental of BD8,500 (2006: BD1,436 per month).

### 11. ISLAMIC FINANCING

		2007 BD	2006 BD
Emirates Islamic Bank	(a)	3,799,551	1,884,900
Khaleeji Commercial Bank	(b)	3,000,000	3,000,000
Kuwait Finance House	(c)	2,500,000	-
Al Baraka Islamic Bank	(d)	3,452,307	-
Shamil Bank	(e)	1,019,792	-
		<b>13,771,650</b>	<b>4,884,900</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 11. ISLAMIC FINANCING (Continued)

- a) This Wakalah finance obligation is repayable in one bullet payment on its anniversary date on 27 May 2008. The Wakalah finance obligation bears profit at the rate of 2.25% per annum over six months EIBOR.
- b) This Wakalah finance obligation is repayable in one bullet payment on its anniversary date on 28 June 2008. The Wakalah finance obligation bears profit at the rate of 1.35% per annum over six months BIBOR. This Wakalah finance obligation is secured against a mortgage of the Company's investment properties (Note 9).
- c) This Murabaha finance obligation is repayable in one bullet payment on its anniversary date on 28 February 2008. This Murabaha finance obligation bears profit at the rate of 2.5% per annum over one year LIBOR.
- d) This Murabaha finance obligation is repayable in one bullet payment on its second anniversary date on 30 March 2009. The Murabaha finance obligation bears profit at the rate of 1.75% per annum over six months LIBOR. This Wakalah finance is secured against a mortgage of the Company's investment properties (Note 8).
- e) This Wakalah finance obligation is repayable in one bullet payment on its anniversary date on 27 September 2008. The Wakalah finance obligation bears profit at the rate of 7.5% per annum.

## 12. OTHER LIABILITIES

	2007 BD	2006 BD
Tala Island payable	964,461	3,973,000
Musharaka financing and Ijarah Muntahia Bittamleek payables	3,197,491	3,185,394
BIW payable (Note 4)	-	1,000,000
Accruals	137,343	223,016
Other payables	458,371	125,255
Mal Suites payable	-	53,022
	<b>4,757,666</b>	<b>8,559,687</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 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 BD42,000 (2006: BD6,500) during the year for charitable purposes as required by the Sharia'a regulations resulting in a cumulative expenditure of BD48,500. The charity fund balance at 31 December 2007 remains at BD66,760.

### 14. SHARE CAPITAL

	2007 BD	2006 BD
<b>Authorised</b>		
400,000,000 shares of BD0.100 each (2006: 400,000,000 shares of BD0.100 each)	40,000,000	40,000,000
<b>Issued and fully paid-up</b>		
200,000,000 shares of BD0.100 each (2006: 200,000,000 shares of BD0.100 each)	20,000,000	20,000,000

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 2007 are as follows:

	Nationality	Number of shares	Percentage of share holding interest
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 THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 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 year, an amount of BD279,500 has been transferred to the statutory reserve (2006: BD149,098).

## 16. STAFF COSTS

Staff costs includes bonus amounting to BD110,000 provided for the year ended 31 December 2007 payable to the Company's employees (2006:BD135,000).

## 17. FINANCE COSTS

	<b>Year ended 31 December 2007 BD</b>	Period from 10 September 2005 to 31 December 2006 BD
Finance costs	<b>855,835</b>	34,078

## 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.

	<b>2007</b>	2006
Net profit attributable to shareholders	BD 2,794,997	BD 1,490,981
Weighted average number of ordinary shares	200,000,000	200,000,000
Basic and diluted earnings per share	14 fils	7 fils

## 19. DIVIDENDS AND APPROPRIATIONS

The Board of Directors have proposed to pay a total dividend of BD1,400,000 (2006:Nil) i.e. 7% of the issued and fully paid-up share capital of the Company for the year ended 31 December 2007. The dividend will consist of a stock dividend, i.e. the bonus issue of 14,000,000 shares at a par value of 100 fils per share. Further, the Board has also proposed appropriations for zakah amounting to BD20,000 and directors' remuneration amounting to BD40,000(2006: BDNil). This is subject to the approval of the Shareholders in the Annual General Meeting to be held on 19 March 2008.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 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.

(i) A summary of the significant transactions with related parties is as follows:

	<b>Year ended 31 December 2007 BD</b>	Period from 10 September 2005 to 31 December 2006 BD
Ijarah Muntahia Bittamleek	<b>488,653</b>	1,146,467
Office rent paid	-	23,783

(ii) A summary of the amounts due from related parties at 31 December 2007 is as follows:

### Amounts due from related parties

	<b>2007 BD</b>	2006 BD
Ijarah Muntahia Bittamleek	<b>936,713</b>	1,170,250

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 21. MATURITY PROFILE

Maturity profile of assets and liabilities at 31 December 2007 is as follows:

	Carrying amount BD	Upto 3 months BD	6-12 months BD	1-5 years BD	6-20 years BD
<b>Assets</b>					
Cash and cash equivalents	1,200,106	1,200,106	-	-	-
Investment in an associated undertaking	270,000	-	270,000	-	-
Investment property fund	2,000,000	-	2,000,000	-	-
Mudaraba investments	2,079,291	2,079,291	-	-	-
Musharaka financing	3,468,865	-	-	-	3,468,865
Ijarah Muntahia Bittamleek	27,907,172	-	-	-	27,907,172
Investment properties	3,750,980	-	3,750,980	-	-
Other assets	491,060	280,628	181,644	28,788	-
Ijarah Muntahia Bittamleek Receivables	776,347	-	-	776,347	-
Property, plant and Equipment	298,597	-	-	298,597	-
<b>Total assets</b>	<b>42,242,418</b>	<b>3,560,025</b>	<b>6,202,624</b>	<b>1,103,732</b>	<b>31,376,037</b>
<b>Liabilities</b>					
Other liabilities	4,757,666	49,613	4,708,053	-	-
Islamic financing	13,771,650	2,500,000	11,271,650	-	-
Charity fund	66,760	66,760	-	-	-
<b>Total liabilities</b>	<b>18,596,076</b>	<b>2,616,373</b>	<b>15,979,703</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 21. MATURITY PROFILE (Continued)

The distribution of assets and liabilities by geographic regions and industry sectors as at 31 December 2006 and 2007 is as follows:

Geographic region	2007		2006	
	BD Assets	BD Liabilities	BD Assets	BD Liabilities
Middle East	42,242,418	42,242,418	35,044,328	35,044,328

Industry sector	2007		2006	
	BD Assets	BD Liabilities	BD Assets	BD Liabilities
Bank and financial institutions	3,345,071	13,771,650	5,144,047	4,889,478
Individuals	32,341,514	3,620,040	19,405,658	3,242,509
Real estate	6,198,224	1,729,246	10,086,517	5,026,022
Others	357,609	23,121,482	408,106	21,886,319
	42,242,418	42,242,418	35,044,328	35,044,328

### 22. COMMITMENTS

Commitments contracted for at the balance sheet date is as follows:

	2007 BD	2006 BD
Investment in Le Papillon Project (Note 3)	855,000	855,000
Purchase of property , plant and equipment	1,399	30,000
Musharaka financing	-	70,816
Others	10,300	-
	866,699	955,816

### 23. MURABAHA AGREEMENT WITH CALYON

On 29 November 2007, the Company signed a Memorandum of Understanding with Calyon, under which Calyon has agreed to provide BD7,500,000 under a Master Murabaha Agreement. The Company has agreed to provide a security interest under this agreement to Calyon to secure the payment and discharge the secured sums. This facility, which is secured against Ijarah Muntahia Bittamleek agreements entered into by the Company, bears a profit margin of 90 basis points over the relevant period BIBOR. As no transactions under this facility has been undertaken during the year, no adjustments have been made to these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 24. COMPLIANCE WITH SHARIA'A RULES AND PRINCIPLES

The Company has appointed a Sharia'a Advisor in accordance with the terms of its Articles of Association. The Sharia'a Advisor reviews the Company's compliance with general Sharia'a principles and issues fatwas, rulings and guidelines on specific matters. The review includes examination of evidence relating to the documentation and procedures adopted by the Company to ensure that its activities are conducted in accordance with Islamic Sharia'a principles.

## 25. SOCIAL RESPONSIBILITY

The Company discharges its social responsibilities through donations to charitable causes and organisations.

## 26. CONCENTRATION OF ASSETS AND LIABILITIES

### *Industry sector*

The Company's assets acquired for leasing have exposures to the real estate sector. Bank balances and Murabaha receivables are placed with banks and financial institutions. Other assets, equipment and liabilities are within other sectors.

### *Geographic sector*

The majority of the Company's assets and liabilities are concentrated in the Kingdom of Bahrain.

## 27. 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 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. The Company's credit risk arises mainly from the Mudaraba investments and receivables of future Ijarah rentals and Musharaka financing.

Mudaraba investments are placed with highly reputed and credit worthy financial institutions. In case of Ijarah rentals, Musharaka financing, the Company has well defined policies for managing credit risks that ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geographical regions and industrial sectors.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 27. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT (Continued)

**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 rate risk.

**Concentration risk** arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Company seeks to manage its concentration risk by establishing geographic, industry and customer-wise concentration limits.

**Profit rate risk** arises due to different timing of re-pricing of the Company's assets and liabilities. The Company's profit rate sensitive assets are mainly Murabaha receivables and assets acquired for leasing. The Company's exposure to profit rate risk is considered to be limited due to the short term nature of Murabaha receivables and the terms of lease payments for assets acquired for leasing are such that they can be re-priced periodically.

**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.

## 28. ZAKAH

The shareholders of the Company will be liable for the payment of zakah on the cash dividends declared and paid by the Company.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RESTATEMENT OF PRIOR PERIOD ITEMS

In the year 2006 the accounting treatment for Ijara Muntahia Bittamleek and investment properties followed the International Financial Reporting Standards (“IFRS”) framework. Accordingly, Ijara Muntahia Bittamleek assets were not capitalised and not depreciated as required by the AAOFI framework and unrealised fair value gains on investment properties though taken to the statement of income, were not transferred at the year end, from the retained earnings to the investment property fair value reserve in the statement of changes in shareholders’ equity.

The statement of income and balance sheet for the previous period have been restated to correct these prior period items. Accordingly the unrealised fair value gains on the investment properties in the previous period has now been credited to the investment property fair value reserve in shareholders’ equity thereby reducing retained earnings for the preceding period by BD994,800. Further, Ijara Muntahia Bittamleek assets have been capitalised in the balance sheet, and depreciation on these assets charged to the statement of income in accordance with the AAOIFI framework.

### 30. COMPARATIVE BALANCES

The statements of income, changes in equity, cash flows and related notes for the year ended 31 December 2007 are not comparable with the prior period, as these figures covered a period from 10 September 2005 (date of incorporation) to 31 December 2006.



**IT'S WHAT'S INSIDE THAT MATTERS**

Reef - Real Estate Finance Company BSC (c)  
PO Box 18599  
Manama  
Kingdom of Bahrain  
Tel: 17 558 080  
Fax: 17 556 333  
Email: [info@reef.bh](mailto:info@reef.bh)

**[www.reef.bh](http://www.reef.bh)**