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In the name of Allah,
most Gracious, most Compassionate





His Highness Shaikh
Khalifa bin Salman
Al Khalifa

The Prime Minister of
the Kingdom of Bahrain



His Majesty King
Hamad bin Isa
Al Khalifa

The King of
the Kingdom of Bahrain



His Highness Shaikh
Salman bin Hamad
Al Khalifa

The Crown Prince
& Deputy Supreme
Commander of the
Bahrain Defence Force

Our Vision and Mission

Vision

“Reef is the premier financing house in the Kingdom of Bahrain, differentiated by its superiority in providing tailor-made financing solutions, quality customer service and respect to strategic partners”.

Mission Statement

We:

- Extend financing facilities to customers residing in the GCC for their real estate and other personal investments in the Kingdom of Bahrain;
- Make certain that our products fit and address the needs of individual customers;
- Share risks with our customers by offering Islamic Shar’ia compliant products;
- Provide simple, flexible and reliable process to make sure best turn-around times;
- Select dependable strategic partners that add value and provide opportunities to our customers;
- Make every effort to provide unmatched customer service by ensuring that our staff are continuously trained and motivated with a smile and pleasure.

Our Values

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 programs.

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 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 – whether in designing products and services or responding to opportunities with the flexibility to realize the greatest results.

Accomplishment

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

One year at a glance

Planning

- Three years strategic plan was developed and is under implementation
- New Business Model was developed
- Vision and Mission statements were redefined
- New strategic alliances initiative was developed

Operations

- Conducted a comprehensive review of all the internal policies and procedures in conjunction with KPMG Fakhro Business Advisory
- Added a new Compliance and AML unit to the company's organisation structure
- Put in place a framework for anti-money laundering by developing policies and training all the Company's employees on AML procedures
- Developed banking process calculation method and procedures to comply with new CBB early repayment rules
- Improved systems and policies for maintaining documents of real estate mortgages to ensure better security
- Developed cheque collection system and procedures to ensure collection in a timely manner and help in forecasting the future financial flow of cheque amounts
- Improved IT performance to provide a consistent and efficient processing environment

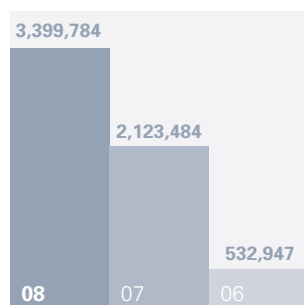
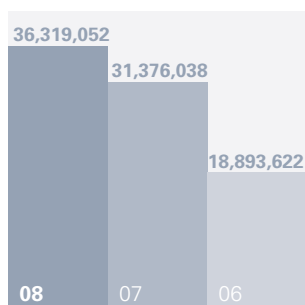
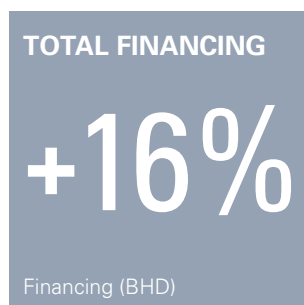
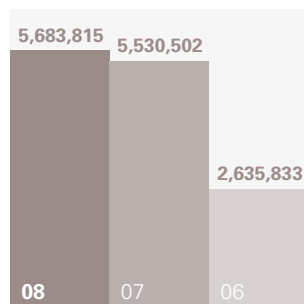
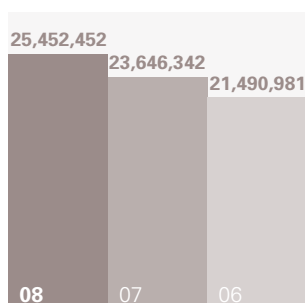
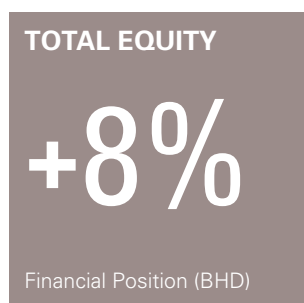
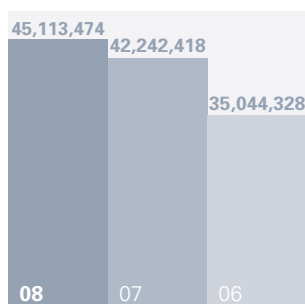
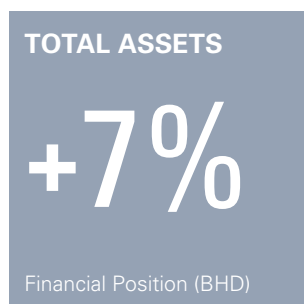
Marketing

- Launched successful marketing campaign to introduce Reef's products and create brand awareness
- Participated in Bahrain International Property Exhibition (BIPEX) as well as visited regional exhibitions
- Sponsored the first annual Gulf Real Estate Fundamentals Conference

Human Resources

- Gave top priority to training and development during the year 2008 in view of its increasing conviction of the importance of developing the human assets.
- Organized a number of tailored courses in strategic management and executive leadership for the Company's work team
- Benefited from many of the courses conducted at the Bahrain Institute for Banking and Finance (BIBF), particularly in credit analysis and customer services

Financial Highlights



Chairman's Message



Ali Ahmed Al Baghli
Chairman

Praise be to Allah, the Almighty, and peace and blessings be upon our Master and Prophet, Mohammed, and upon his scion and companions, Amen.

On behalf of the Board of Directors, it is my privilege to present Reef's annual report for the year ended 31 December 2008.

Perhaps the crisis which has swept through the financial and real estate sectors, beginning in early 2007, or even before that, when the early signs of the sub-prime crisis began to be felt in the United States, and continuing throughout the year 2008, when the contagion enveloped the GCC markets, is the crisis of the century. The reason is that it has had great effects on most countries of the world, and therefore we can aptly call it the «crisis of geography and history,» for neither history has enabled us to recall, and learn from, the memories of the 1929 recession and find proactive solutions in order to prevent the crisis from reaching such profoundness, nor has geography been able to stop the effects of the crisis and limit them to the territories of the United States or even Europe.

With the aggravating global crisis and its consequences on the Arabian Gulf countries, it is now patently clear that these effects have had varying degrees on Arabian Gulf countries and on their various economic sectors, particularly the real estate and financial sectors. At the same time, these consequences were felt more in some sectors than others, but the markets which are well-regulated and have proper legislative framework

organizing real estate investments and freehold ownership have been less affected than others due to the low speculative transactions conducted usually by some investors.

With the sharp fall in liquidity levels, tightening policies in extending loans and credit facilities was one of the key reasons which led to the halt in the purchase of residential properties, not only by speculative investors but also by ordinary investors. The most hit in this have been developers and major real estate projects which relied heavily on the financing extended by banks and the pre-sales payments by investors.

It was natural, against this background, for Reef Real Estate Finance to be impacted by the crisis as a result of its inability to raise enough liquidity from banks to finance its retail financing operations, in addition to other factors related to the deterioration witnessed by the real estate market as a result of the imbalance between offer and demand by consumers and the continued slide in prices.

However, notwithstanding these difficult conditions which the region and its financial and real estate companies are passing through, and the deterioration in the real estate trading since the end of the third quarter and throughout the fourth quarter of the year 2008, Reef Real Estate Finance posted positive results at the end of the year, represented in a its net income standing at close to US\$ 5 millions. At the same time, the Company's income from Ijara transactions rose to US\$ 12 millions, an increase of 57% against 2007. On the other hand, operating

“On behalf of the Board of Directors, I would like to affirm our full commitment to supporting the Company during these difficult and testing times to enable it to realize its strategic objectives. At the same time, we are highly pleased over the results made during 2008 despite the effects of the global financial crisis on the Company’s activities”

income rose to US\$ 15 millions, an increase of 3% over the preceding year.

Against these difficult conditions, and with the expectation that they will continue throughout most of 2009, the Company’s strategy will focus on making more efforts to cover the shortage in liquidity levels in its treasury in order to continue to discharge its obligations towards banks and financial institutions on the one hand and to finance its operations if conditions make a turnaround on the other hand.

The executive management has developed the new three year strategy which comprises refocusing the Company’s mission and vision to reflect its current and future business model. At the same time, the management developed a marketing model and a marketing plan for the next period, which included the development of new financing products directed at different sectors of the customers in order to fulfil the principle of income diversification as part of its future marketing activities.

On behalf of the Board of Directors, I would like to affirm our full commitment to supporting the Company during these difficult and testing times to enable it to realize its strategic objectives. At the same time, we are highly pleased over the results made during 2008 despite the effects of the global financial crisis on the Company’s activities.

I would like also to seize this opportunity to express my sincere appreciation to all Government’s ministries and regulatory authorities in the Kingdom of Bahrain, mainly the Central Bank of Bahrain, the Ministry of Industry and Commerce and the Survey and Land Registration Bureau for their constant support to the Company.

Our thanks also go to all our strategic partners, including banks, real estate developers and marketers for their confidence vested in the Company throughout 2008.

In conclusion, I would like to personally extend my deep appreciation and gratitude and that of the Board of Directors to our shareholders and all the Company’s staff, wishing them all success.

Allah is the purveyor of success.



Ali Ahmed Al Baghli
Chairman

Board of Directors



Ali Al Baghli
Chairman



Omar El Quqa
Vice Chairman



Faisal Matrook
Board Member
Until 29 June 2008

Members of the Executive Committee:

1. Omer Al Quqa
Chairman
 2. Osama Muein
Member
 3. Nasser Al Gharibah
Member
-



Dr. Khalid Abdulla
Board Member
Until 29 June 2008



Aiderous Al Bar
Board Member
Until 29 June 2008



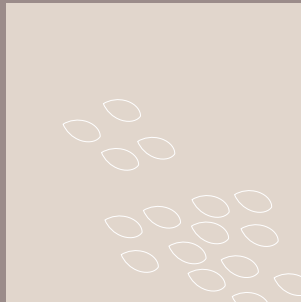
Nasser Al Gharibah
Board Member



Mohammed Al Tawash
Board Member
Until 29 June 2008



Osama Muein
Board Member
From 30 June 2008



Samer Abbouchi
Board Member
From 30 June 2008



Dr. Abdul Aziz Al Dekhail
Board Member
From 30 June 2008

Members of the Audit Committee:

Mr. Mahmood Al Koofi
Chief Executive Officer

1. Samer Abbouchi
Chairman

Mrs. Ranya Al Baker
Board Secretary

2. Dr. Jassim Al Ajami
Independent Member

Management Review



Mahmood Al Koofi
Chief Executive Officer

During the first half of 2008, the Gulf region enjoyed positive economic conditions on the wave of rising crude prices on the global markets, which had good effects on the real estate sector in the region in general and the market of the Kingdom of Bahrain in particular. The real estate sector in the Kingdom enjoyed a boom during this period and sales of residential, commercial and investment properties rose despite rising prices.

However, during the second half of the year, the global economy passed through a downturn trend which has been unprecedented since 1929. The situation, as a result of the credit crunch and the sub-prime crisis, and its effects were felt on the regional and local levels. The crisis had a clear adverse impact on the property market in Bahrain, with the sales of units in some of the towers showing signs of reservation and prudence during the last quarter of 2008, which is considered a direct reflection of the global economic downturn and its repercussions, which in turn led to a drop in property trading. A number of real estate reports indicated a severe drop in the real property trading and a drop in property prices in certain areas of the Kingdom during the second half of the year.

The crisis resulted in major challenges and difficulties for financial companies and institutions, making liquidity very difficult to come by on the one hand and investors becoming conservative in property trading on the other. This warranted a review of the strategic priorities of firms and companies related to the sale, purchase, investment and financing of properties, aligning these strategies with the likelihood of continued economic downturn during the next period.

Reef's Performance

Despite the sub-prime crisis and economic downturn and their adverse consequences on commercial banks and real estate financing companies during the year 2008, Reef's performance was positive, with the Company benefiting from the positive conditions which prevailed during the first half of last year. The Company made a net income of close to US\$ 5 million, and also posted good growth in the number of Ijara Muntahia Bitamleek transactions. We also increased the volume of our portfolio with non-speculating customers to realize steady and sustainable profits on the long term through our strict and timely credit procedures and in close co-operation with our

strategic partners including developers, marketers and others.

Reef's total assets have grown to approximately US\$ 119 million, which is a 7% increase over 2007, while shareholders' equity stood at US\$ 67 million, a rise of 8% despite the severe conditions witnessed by the property market in the region.

Investments

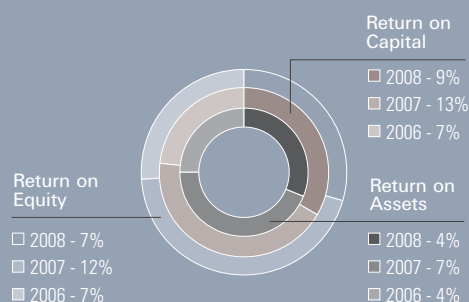
As a result of the crisis on the real estate sector in Bahrain during the second half of the year, and the downturn in activities, we could not realize the targeted sales in Tala Island residential flats located on Amwaj Islands, owned by the Company. It was envisaged that the flats would be offered for sale, according to the plans, during the last quarter of last year, and as a result we have drawn up an alternative plan to invest in these flats and utilize them in case we are not able to sell them due to the economic downturn and slow property trading during the next stage.

Strategic Planning and Marketing

In 2008, the Executive Management developed the strategic three-year plan for the Company, which comprises reformulating the Company's vision and mission to reflect the Company's current and future business model. We also developed a business model for the marketing process, in addition to the marketing plan for the next stage. The plan included the development of new financing products targeted to different sectors to provide a portfolio of diversified products in addition to media campaigns and sponsorship of social activities to enhance Reef's position as a real estate financing company.

On the marketing side, we mounted media campaigns to market and introduce the Company's products and services during the year, and we participated in several regional real estate exhibitions. These activities had a substantial effect on our sales, particularly during the first half of the year. We also sponsored the First Property Basics Conference in the Gulf to reiterate our support for the property industry and to enhance and consolidate Reef's position as a leading financing company. We also established strong relations with our partners of property developers and signed a number of memorandums of understanding for joint financing for new projects, in the residential and commercial sectors, to provide new financing opportunities for Reef Company.

Profitability ratio



“Despite the sub-prime crisis and economic downturn and their adverse consequences on commercial banks and real estate financing companies during the year 2008, Reef’s performance was positive, with the Company benefiting from the positive conditions which prevailed during the first half of last year”

Operations and Risk Management

With the sharp increase in the number of transactions conducted by the Company, particularly before the effects of the crisis began to be felt on real estate dealings in the Kingdom, and in line with its quality management principles, the team responsible for operations and risk management undertook a number of improvement initiatives in all areas of operations in order to provide the best and fastest services to the Company’s customers and maintain its ability to attract new customers who meet certain credit standards. In this regard, the Executive Management made many achievements, which include, but are not limited to, the following:

- Development of the banking process calculation method and procedures as part of the commitment to the new Early Repayment Law enacted by the Central Bank of Bahrain last year.
- Improving work systems and policies for maintaining documents of real estate mortgage to ensure security in maintaining and filing all official documents.
- Developing the cheque collection system and procedures and their reports to ensure collection in a timely manner and help in forecasting the future financial flow of cheque amounts.
- Improving added values, such as insurance and evaluation in order to provide the best customer services.
- Laying down a framework for anti-money laundering by creating a special unit and developing policies and training all the Company’s employees on AML procedures.
- Improving IT performance and providing a consistent and efficient processing environment.
- Conducting a comprehensive review of all the internal policies and procedures in conjunction with KPMG Fakhro Business Advisory.

Human Resources

The Executive Management gave top priority to training and development during the year 2008 in view of its increasing conviction of the importance of developing the human assets. In this context, the Executive Management benefited from many of the courses conducted at the Bahrain Institute for Banking and Finance (BIBF), particularly in credit analysis and customer services.

The Executive Management also organized a number of tailored courses in strategic management and executive leadership for the Company’s work team, focusing on the strategic planning capacity building and innovation in work, in co-operation with one of the internationally reputed companies in management innovation in companies.


Looking Forward

Given the circumstances the Company is passing through and the speculation over what the year 2009 would be, and in view of the effects of such speculation which should be taken into account when executing work plans, and in order for the Company to maintain an acceptable balance in its results for 2009, the guidelines of the work plan focused on three pillars of implementation during the next stage, the first being providing the necessary liquidity to maintain the Company’s activities, and then launching at least two new products to achieve diversified products and make intensive efforts to safeguard the rights of ownership of the Company’s trade market under the current critical conditions.

Last but not least, we are confident that the work team is committed to maintaining growth and success which began three years ago. Therefore, on behalf of my colleagues in the Executive Management, I extend my deep appreciation and thanks to all the Company’s employees for their dedication and hard work throughout 2008.

I also extend thanks and gratitude to Reef’s Board members for their support of Reef. Thanks are also due to all our customers and strategic business partners who are fundamental to Reef’s business for their confidence and for their willingness to continue to work with us.

Finally, I extend my thanks and gratitude to the Central Bank of Bahrain and the Ministry of Industry and Commerce for their support to us during the year, and we hope that this amicable and fruitful relationship will continue for the general good and prosperity of our beloved Kingdom.



Mahmood Al Koofi
Chief Executive Officer

Management Team



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), and engineering diploma (University de Caen, France) and advanced management diploma (Bahrain University). More than 25 years strategic management, consultancy and business development experience.



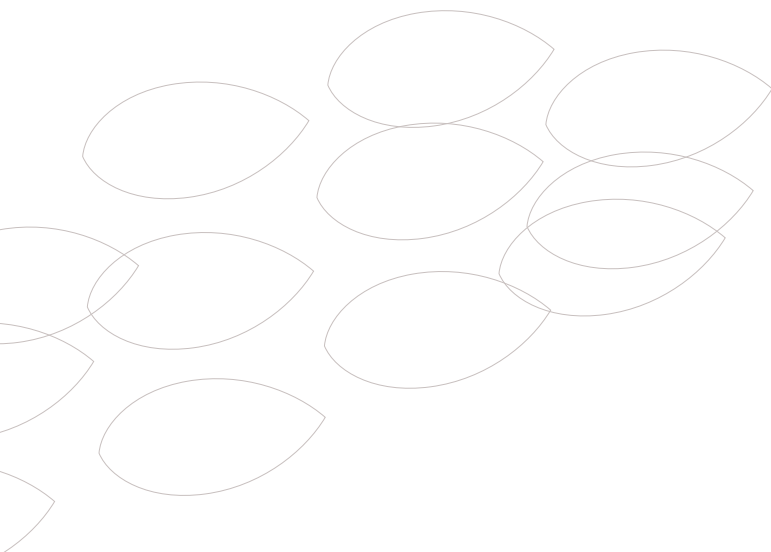
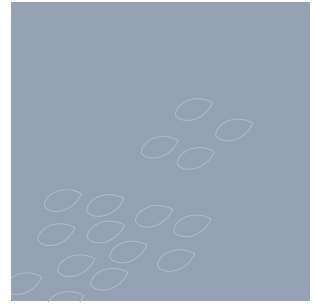
Hassan Dhaif
Chief Financial Officer

CPA from the (AICPA, USA), B.S.c accounting from the University of Bahrain. Over 13 year's audit, telecom, finance and banking experience.



Ahmed Al Kooheji
Chief Operations Officer

MBA (University of Glamorgan, UK) and B.Sc Engineering (University of Bahrain). Over 13 years of experience in information communication technology, business processing, business and technical consulting and project management.





Ali Salem
Head of Retail

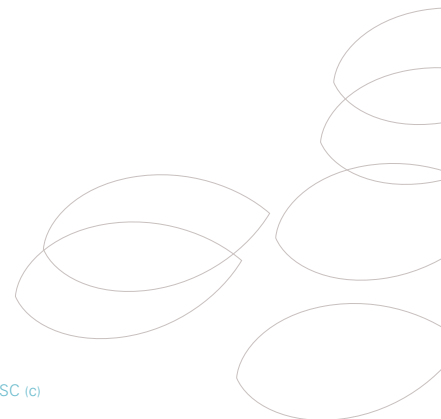
MBA in Business Administration (University of Hull, UK) and Diploma in Business study from University of Bahrain. Over 19 years in operations, retail, customer services, product development in the banking industry.

Mukhtar Al-Toblani
Head of Sales & Marketing

MBA in General Management (University of Hull, UK) and exempted marketing diploma (Chartered Institute of Marketing - CIM, UK). More than 20 years operational, business & products development marketing in credit card, loyalty, marketing and financing, industries.

Fathia Al Awadhi
Head of HR & Administration

ACCA Diploma in Accounting & Finance (The Association of Chartered Certified Accountants) and Associate from University of Bahrain. More than 11 years HR and accounting and financial control experience in the financial sector. Member of Institute of Administrative Management and Bahrain Society for Training and development.



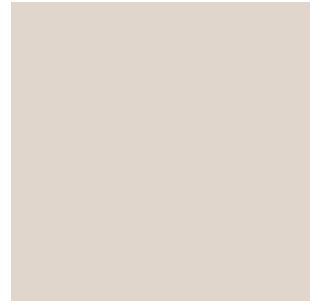
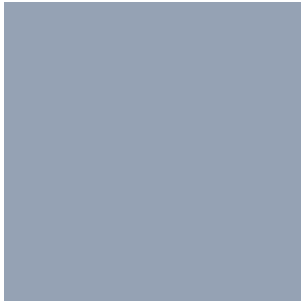
Strategic Partners

We believe in business partnership and creating strategic alliances that enhance our brand value.

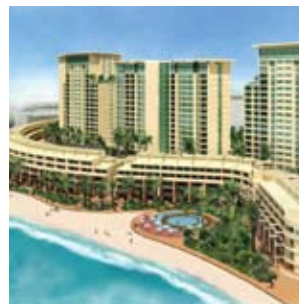
Our approach is based on the premise of value sharing and the benefits provided to our clients. As such, Reef is associated with a number of major developer partners in the Kingdom of Bahrain in order to ensure that our brand promise is delivered at competitive rates.

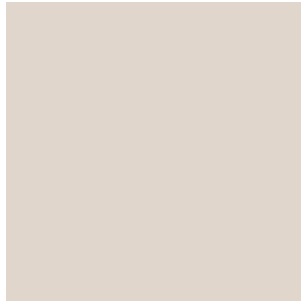
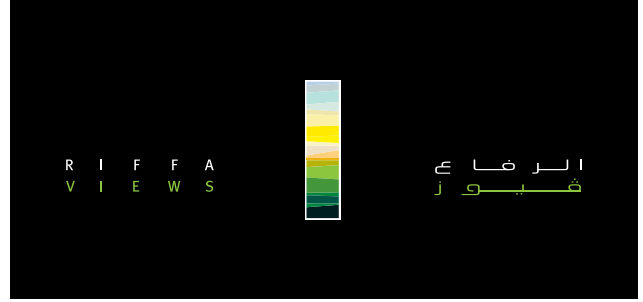


Marvida Tower
The Lap of Luxury



marinaWEST
مارينا ويست





The Fontana Tower





Corporate Social Responsibility



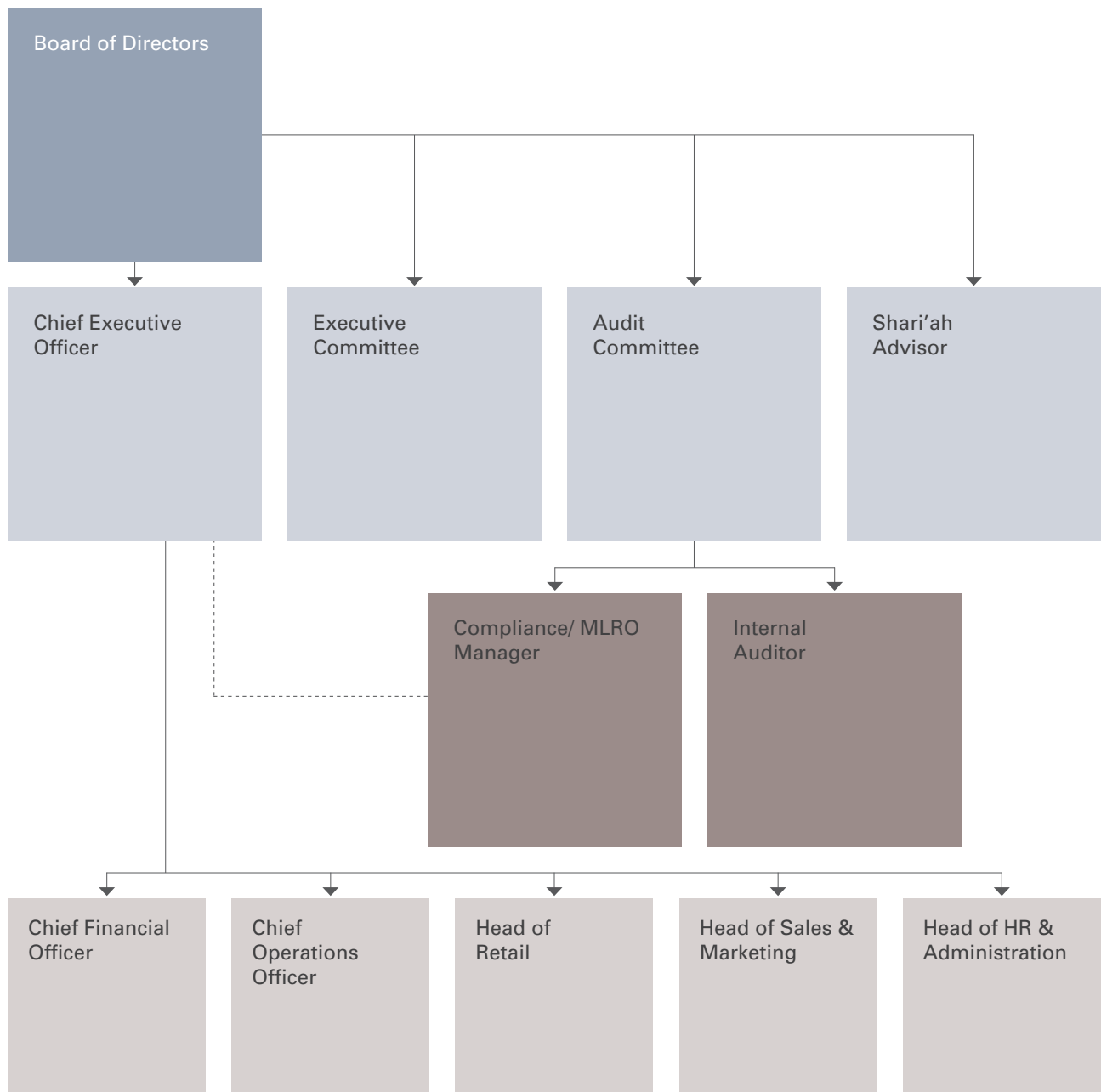
Reef is a firm believer in the creation and sharing of value, at a personal level, corporate level, and a wider social level. In staking a position as a keystone, or founding organization we consider our sphere of influence and role in society in a wider context. Accordingly our actions are always in 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 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.

Organisation Chart



Corporate Governance

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 organization 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 Al Baghli
Chairman

Omar El Quqa
Vice Chairman

Osama Muein
Board Member

Nasser Al Gharibah
Board Member

Samer Abbouchi
Board Member

Dr. Abdul Aziz Al Dekhail
Board Member

EXECUTIVE COMMITTEE

Omer Al Quqa
Chairman

Osama Muein
Member

Nasser Al Gharibah
Member

AUDIT COMMITTEE

Samer Abbouchi
Chairman

Dr. Jassim Al Ajami
Independent Member

Internal Auditors – KPMG Fakhro

MANAGEMENT COMMITTEE

Mahmood Al Koofi
Chief Executive Officer

Hassan Dhaif
Chief Financial Officer

Ahmed Al Kooheji
Chief Operations Officer

Ali Salem
Head of Retail & Placement

Mukhtar Al- Toblani
Head of Sales & Marketing

Fathia Al Awadhi
Head of HR & Administration

FRAMEWORK

Reef's corporate governance framework comprises a code of business conduct; operational policies and procedure; 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

Thanks to Almighty Allah and prayers and peace be upon the last apostle and messenger, our Prophet Mohammed, his family, companions 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, 2008. 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, 2008 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

17 Safar 1430
12 February 2009

In the name of Allah,
Most Merciful, Most Gracious

Financial Statement

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Reef Real Estate Finance Co. BSC (c)

Commercial registration no. CBB license	58073 obtained on 10 September 2005 FC/001 obtained on 7 November 2007
Chairman	New Board constituted with effect from 29 June 2008 Mr Ali Ahmed Al Baghli
Board of Directors	Mr Omar Mahmood El-Quqa (Vice-Chairman) Mr Osama Muein Mr Nasser Abdulhadi Al Gharibah Mr Samer Abbouchi Mr Abdull Aziz Al Dekhail
Chief Executive Officer	Mr Mahmood Al Koofi (appointed with effect from 1 February 2008) Dr Khalid Abdulla (resigned with effect from 30 September 2007, reappointed as acting CEO from 7 October 2007 to 31 January 2008)
Board of Directors	Previous Board continued up to 29 June 2008 Mr Faisal Ali Almatrook Mr Aidarous Salem Aidarous Albar Mr Khalil Ebrahim Ali Al A'Ali Mr Mohammed Abdulrasool Altawash
Executive Committee Members	Mr Omar Mahmood El-Quqa (Chairman) Mr Osama Muein Mr Nasser Abdulhadi Al Gharibah
Audit Committee Members	Mr Samer Abbouchi (Chairman) Dr. Jassim Al Ajmi (Independent Member)
Shari'a Supervisory Advisor	Dr Fareed Hadi
Registered office	Building 483, Road 1010 Block 410 P.O. Box 18599 Manama Kingdom of Bahrain
Bankers	Shamil Bank of Bahrain Kuwait Finance House Al Baraka Islamic Bank Calyon Bank Bahrain Islamic Bank Khaleeji Commercial Bank Emirates Islamic Bank
Auditors	BDO Jawad Habib P.O. Box 787 5 th Floor, UGB Tower Diplomatic Area Kingdom of Bahrain

Independent Auditors' Report To The Shareholders



BDO JAWAD HABIB
P.O. Box 787
5th Floor, UGB Tower
Diplomatic Area, Kingdom of Bahrain

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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 2008, 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 2008, 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 2008.

BDO Jawad Habib

Manama, Kingdom of Bahrain

12 February 2009

Balance sheet

At 31 December 2008

(Expressed in Bahrain Dinars)

	Notes	2008	2007
ASSETS			
Cash and bank balances	2	939,031	1,200,106
Investments:			
Investment in an associated undertaking	3	397,750	270,000
Investment property fund	4	-	2,000,000
Mudaraba investments	5	1,575,400	2,079,291
Musharaka financing	6	553,009	3,468,865
Ijarah Muntahia Bittamleek	7	35,766,043	27,907,172
Investment properties	8	3,750,980	3,750,980
Trade and other receivables	9	329,813	491,060
Ijara Muntahia Bittamleek receivables		1,560,091	776,347
Property and equipment	10	241,357	298,597
Total assets		45,113,474	42,242,418
LIABILITIES AND EQUITY			
Liabilities			
Islamic financing	11	16,775,989	13,771,650
Other liabilities	12	2,871,533	4,757,666
Charity fund	13	13,500	66,760
		19,661,022	18,596,076
Equity			
Share capital	14	21,400,000	20,000,000
Statutory reserve	15	615,209	428,598
Investment property fair value reserve		1,444,730	1,444,730
Retained earnings		1,992,513	1,773,014
		25,452,452	23,646,342
Total liabilities and equity		45,113,474	42,242,418

These financial statements were approved by the Board of Directors on 12 February 2009 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Mahmood Al Koofi
Chief Executive Officer

The accounting policies on pages 28 to 30 and the notes on pages 31 to 40 form an integral part of these financial statements.

Statement of income

for the year ended 31 December 2008
(Expressed in Bahrain Dinars)

	Notes	2008	2007
Income			
Profit from Mudaraba investments		123,554	119,987
Income from Ijarah Muntahia Bittamleek		4,412,483	2,811,043
Profit from Musharaka financing		117,440	168,276
Fees income from Ijarah Muntahia Bittamleek		379,438	298,359
Realised gains on investment property fund	4	644,500	140,000
Realised gains on sale of investment properties		-	847,751
Unrealised fair value gains on investment properties	8	-	1,089,566
Other income		6,400	55,520
		5,683,815	5,530,502
Expenses			
Staff costs		(697,287)	(595,577)
General and administrative expenses	16	(469,562)	(384,466)
Share of loss from investment in an associated undertaking	3	(97,250)	-
Depreciation of Ijarah Muntahia Bittamleek	7	(1,210,772)	(776,347)
Depreciation of property and equipment	10	(93,520)	(68,630)
Provision for Ijarah Muntahia Bittamleek & Musharaka	6, 7	(113,152)	(47,000)
Finance costs	17	(1,130,139)	(855,835)
Directors' attendance fees		(6,023)	(7,650)
		(3,817,705)	(2,735,505)
Net profit for the year	18	1,866,110	2,794,997
Earnings per share	18	8.7 fils	13.1 fils

These financial statements were approved by the Board of Directors on 12 February 2009 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Mahmood Al Koofi
Chief Executive Officer

The accounting policies on pages 28 to 30 and the notes on pages 31 to 40 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2008

(Expressed in Bahrain Dinars)

	Notes	Share capital	Statutory reserve	Investment property fair value reserve	Retained earnings	Total
At 1 January 2007		20,000,000	149,098	994,800	347,083	21,490,981
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	8	-	-	1,089,566	(1,089,566)	-
Transferred to statutory reserve	15	-	279,500	-	(279,500)	-
At 31 December 2007		20,000,000	428,598	1,444,730	1,773,014	23,646,342
At 1 January 2008		20,000,000	428,598	1,444,730	1,773,014	23,646,342
Bonus shares issued	19	1,400,000	-	-	(1,400,000)	-
Charity	19	-	-	-	(20,000)	(20,000)
Director's remuneration	19	-	-	-	(40,000)	(40,000)
Net profit for the year		-	-	-	1,866,110	1,866,110
Transferred to statutory reserve	15	-	186,611	-	(186,611)	-
At 31 December 2008		21,400,000	615,209	1,444,730	1,992,513	25,452,452

The accounting policies on pages 28 to 30 and the notes on pages 31 to 40 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2008
(Expressed in Bahrain Dinars)

	Notes	2008	2007
Operating activities			
Net profit for the year		1,866,110	2,794,997
Adjustments for:			
Depreciation on property and equipment	10	93,520	68,630
Depreciation on Ijara Muntahia Bittamleek assets	7	1,210,772	776,347
Realised gains on investment property fund	4	(644,500)	(140,000)
Realised gains on sale of investment properties		-	(847,751)
Unrealised fair value gains on investment properties	8	-	(1,089,566)
Share of loss from associated undertaking		97,250	-
Finance costs	17	1,130,139	855,835
Changes in operating assets and liabilities:			
Ijara Muntahia Bittamleek receivables		(783,744)	(776,347)
Trade and other receivables		161,247	257,217
Other liabilities		(1,886,133)	(3,802,021)
Net cash provided by (used in) operating activities		1,244,661	(1,902,659)
Investing activities			
Purchase of property and equipment	10	(36,280)	(174,463)
Proceeds from sale of property and equipment		-	76,107
Proceeds from sale of investment property fund	4	2,644,500	-
Proceeds from sale of investment properties		-	5,248,218
Net movement in Ijarah Muntahia Bittamleek		(9,069,643)	(13,532,956)
Net movement in Musharaka financing		2,915,856	435,570
Additional investment in an associated undertaking	3	(225,000)	-
Net cash used in investing activities		(3,770,567)	(7,947,524)
Financing activities			
Islamic financing received, net		3,004,339	8,886,750
Charity payment	13	(73,260)	(42,000)
Directors' remuneration paid	19	(40,000)	-
Finance costs paid	17	(1,130,139)	(855,835)
Net cash provided by financing activities		1,760,940	7,988,915
Net decrease in cash and cash equivalents		(764,966)	(1,861,268)
Cash and cash equivalents, beginning of the year		3,279,397	5,140,665
Cash and cash equivalents, end of the year		2,514,431	3,279,397
Comprising:			
Cash and bank balances	2	939,031	1,200,106
Mudaraba investments	5	1,575,400	2,079,291
		2,514,431	3,279,397

The accounting policies on pages 28 to 30 and the notes on pages 31 to 40 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 Standards (IFRS).

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

2 Property and equipment and accumulated depreciation

Property 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 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 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 property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the property 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 accounting records 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 Mudaraba investments

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

Significant accounting policies

6 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.

7 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 an indefinite life), at rates calculated to write-off the cost of each asset over the period of the lease.

8 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 statement of income. In accordance with AAOFI, 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-off, 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.

9 Trade receivables

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

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.

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.

Significant accounting policies

(continued)

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 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.

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 Mudaraba contracts

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

d) 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 Sharia'a Supervisory Advisor.

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 and bank balances.

Notes to the financial statements

for the year ended 31 December 2008

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 58073 granted by the Ministry of Industry and Commerce and CBB license number FC/001 obtained on 7 November 2007. 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 Shari'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 bank balances

	2008 BD	2007 BD
Cash on hand	930	500
Current account balances with banks	938,101	1,199,606
	939,031	1,200,106

The current account balances with banks are non-profit bearing.

3 Investment in an associated undertaking

	2008 BD	2007 BD
At 1 January	270,000	270,000
Additions during the year	225,000	-
Share of net loss for the year	(97,250)	-
At 31 December	397,750	270,000

The Company, in accordance with a Memorandum of Understanding dated 10 July 2006, agreed to participate in First REEF Company WLL upto 45% of the equity share capital. The proposed equity share capital of First REEF Company is BD2,500,000. As at 31 December 2008, the Company has advanced BD495,000 to First REEF Company WLL with the balance of BD630,000 reflected as a capital commitment at the balance sheet date (Note 22).

The Company's share of loss in the associated undertaking has been ascertained based on management accounts prepared as at, and for the year ended, 31 December 2008.

Notes to the financial statements

for the year ended 31 December 2008

4 Investment property funds

	2008 BD	2007 BD
At 1 January	2,000,000	1,860,000
Realised gains on sales transferred to the statement of income	644,500	140,000
Disposals during the year	(2,644,500)	-
At 31 December	-	2,000,000

Comprising:

Shares in SPV of Bahrain Investment Wharf BSC (c) ("BIW")	-	2,000,000
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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. During the current year, the investment in the SPV has been disposed-off.

5 Mudaraba investments

	2008 BD	2007 BD
Calyon Bank	1,500,000	-
Kuwait Finance House	-	2,003,891
Khaleeji Commercial Bank	75,400	75,400
	1,575,400	2,079,291

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

	2008 BD	2007 BD
At 1 January	3,468,865	3,904,435
Gross payments during the year	38,207	1,170,199
Repayments during the year	(2,948,992)	(1,600,698)
	558,080	3,473,936
Provision for impairment	(5,071)	(5,071)
At 31 December	553,009	3,468,865

Comprising:

Retail	412,880	785,213
Commercial	140,129	2,683,652
	553,009	3,468,865

Notes to the financial statements

for the year ended 31 December 2008

7 Ijarah Muntahia Bittamleek

	Land BD	Buildings BD	Total BD
Cost			
At 1 January 2008	11,952,264	16,773,184	28,725,448
Additions	10,486,793	13,368,881	23,855,674
Repayments	(8,545,071)	(6,605,242)	(15,150,313)
At 31 December	13,893,986	23,536,823	37,430,809
Depreciation			
At 1 January 2008	-	(818,276)	(818,276)
Impairment provision for the year	-	(113,152)	(113,152)
Provided during the year	-	(1,210,772)	(1,210,772)
Repayments during the year	-	477,434	477,434
At 31 December	-	(1,664,766)	(1,664,766)
Net book amount			
At 31 December 2008	13,893,986	21,872,057	35,766,043
At 31 December 2007	11,952,264	15,954,908	27,907,172

8 Investment properties

	2008 BD	2007 BD
At 1 January	3,750,980	7,701,517
Disposals during the year	-	(5,040,103)
Unrealised fair value gains taken to the investment property fair value reserve	-	1,089,566
At 31 December	3,750,980	3,750,980

In December 2008, the Company obtained a valuation of its investment properties from an independent real estate valuer, which reflected the total value of the properties at BD 4,013,800, resulting in an unrealised fair value gain amounting to BD 262,820, (2007:BD 1,089,566). However, on a conservative basis, the management of the company has taken a decision not to include the current years unrealised fair value gain in the statement of income. However all unrealised gains of the previous years which were initially credited to the statement of income have been transferred from the retained earnings to the investment property fair value reserve in shareholders' equity to comply with the requirements of the AAOIFI.

9 Trade and other receivables

	2008 BD	2007 BD
Trade receivables	198,751	367,589
Profit receivable on Mudaraba investments	2,210	2,334
Prepayments and other receivables	128,852	121,137
	329,813	491,060

Notes to the financial statements

for the year ended 31 December 2008

10 Property and equipment

	Leasehold improvements BD	Furniture and fixtures BD	Office equipment BD	Computer hardware and software BD	Motor vehicles BD	Total BD
Cost						
At 1 January 2008	148,867	43,503	44,373	97,865	36,880	371,488
Additions	3,562	2,961	1,907	27,850	-	36,280
At 31 December 2008	152,429	46,464	46,280	125,715	36,880	407,768
Accumulated depreciation						
At 1 January 2008	22,012	7,519	8,106	26,686	8,568	72,891
Charge for the year	30,130	9,037	10,021	32,039	12,293	93,520
At 31 December 2008	52,142	16,556	18,127	58,725	20,861	166,411
Net book amount						
At 31 December 2008	100,287	29,908	28,153	66,990	16,019	241,357
At 31 December 2007	126,855	35,984	36,267	71,179	28,312	298,597

The Company operates from premises leased at a monthly rental of BD8,500 (2007: BD8,500 per month).

11 Islamic financing

Particulars	2008 BD	2007 BD
Emirates Islamic Bank	3,750,000	3,799,551
Khaleeji Commercial Bank	-	3,000,000
Kuwait Finance House	2,510,151	2,500,000
Al Baraka Islamic Bank	1,151,183	3,452,307
Shamil Bank of Bahrain	2,047,639	1,019,792
Calyon Bank	5,317,016	-
Bahrain Islamic Bank	2,000,000	-
	16,775,989	13,771,650

The borrowings from Al Baraka Islamic Bank and Calyon Bank are secured against a mortgage against Ijarah Muntahia Bittamleek agreements entered into by the Company. The borrowings of the Company bears average profit rate of 7.40% per annum (2007: 9.17% per annum)

12 Other liabilities

	2008 BD	2007 BD
Tala Island payable	111,244	964,461
Musharaka financing and Ijarah Muntahia Bittamleek payables	1,985,978	3,197,491
Accrued expenses	177,429	137,343
Other payables	596,882	458,371
	2,871,533	4,757,666

Notes to the financial statements

for the year ended 31 December 2008

13 Charity fund

The share capital received from the shareholders prior to 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. Further during the year, the Annual General Meeting held on 19 March 2008 approved a transfer of BD20,000 to charity fund. The Company has utilised BD73,260 (2007: BD42,000) during the year for charitable purposes as required by the Sharia'a regulations resulting in a cumulative expenditure of BD121,760. The charity fund balance at 31 December 2008 amounts to BD13,500 (2007: BD66,760).

14 Share capital

	2008 BD	2007 BD
Authorised		
400,000,000 shares of BD0.100 each (2007: 400,000,000 shares of BD0.100 each)	40,000,000	40,000,000
Issued and fully paid-up		
214,000,000 shares of BD0.100 each (2007: 200,000,000 shares of BD0.100 each)	21,400,000	20,000,000

The Company has only one class of equity shares and the holders of the shares have equal voting rights. During the year, the Annual General Meeting of the shareholders held on 19 March 2008 approved to issue BD1,400,000 as bonus shares to the shareholders. Accordingly, the issued and fully paid-up share capital has increased from BD20,000,000 to BD21,400,000.

Additional information on shareholding pattern

The names and nationalities of the major shareholders, holding shareholding interest of 5% or more and the number of shares at 31 December 2008 and 2007 are as follows:

	31 December 2008		
	Nationality	Number of shares	Percentage of share holding interest
National International Holding KSC(c)	Kuwaiti	42,800,000	20%
Global Investment House KSC(c)	Kuwaiti	36,380,000	17%
Al Khaleej Development Company BSC	Bahraini	21,400,000	10%
Ossis Property Developers BSC(c)	Bahraini	21,400,000	10%
Safi Financial Services	Kuwaiti	21,400,000	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	11,770,000	5.5%
	31 December 2007		
	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 2008

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 BD186,611 has been transferred to the statutory reserve (2007: BD279,500).

16 General and administrative expenses

A break-down of the general and administrative expenses as on 31 December 2008 is as follows:

	Year ended 31 December 2008 BD	Year ended 31 December 2007 BD
Premises expenses	124,467	121,394
Business development	101,753	91,893
Professional fees	77,050	72,979
Communication expenses	29,897	31,984
System expenses	30,865	4,094
Other general expenses	105,530	62,122
	469,562	384,466

17 Finance costs

	Year ended 31 December 2008 BD	Year ended 31 December 2007 BD
Wakalah financing costs	413,420	452,208
Murabaha financing costs	716,719	403,627
	1,130,139	855,835

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.

	2008	2007
Net profit attributable to the shareholders	1,866,110	2,794,997
Weighted average number of ordinary shares	214,000,000	214,000,000
Basic and diluted earnings per share	8.7 fils	13.1 fils

The distribution of 14 million bonus shares was completed during the year ended 31 December 2008 and, therefore, the weighted number of ordinary shares of 2007 has been restated to give effect to the bonus issue.

Notes to the financial statements

for the year ended 31 December 2008

19 Dividends and appropriations

The Board of Directors have proposed to pay a total dividend of BD1,498,000 (2007: BD1,400,000) i.e. 7% of the issued and fully paid-up share capital of the Company for the year ended 31 December 2008. The dividend will consist of a stock dividend, i.e. the bonus issue of 14,980,000 shares at a par value of 100 fils per share (2007: BD1,400,000). Further, the Board has also proposed appropriations for Zakah amounting to BD6,500 (2007: BD20,000) and directors' remuneration amounting to BD15,000 (2007: BD40,000). This is subject to the approval of the Shareholders in the Annual General Meeting.

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:

	Year ended 31 December 2008 BD	Year ended 31 December 2007 BD
Ijarah Muntahia Bittamleek	76,944	1,076,260

(ii) A summary of the amounts due from related parties at 31 December 2008 is as follows:

Amounts due from related parties	2008 BD	2007 BD
Ijarah Muntahia Bittamleek	884,909	936,713

21 Maturity profile

Maturity profile of assets and liabilities at 31 December 2008 and 2007 is as follows:

	31 December 2008				
	Carrying amount BD	Upto 3 months BD	From 6 to 12 months BD	From 1 to 5 years BD	From 6 to 20 years BD
Assets					
Cash and cash equivalents	939,031	939,031	-	-	-
Investment in an associated undertaking	397,750	-	397,750	-	-
Mudaraba investments	1,575,400	-	1,500,000	75,400	-
Musharaka financing	553,009	-	-	-	553,009
Ijarah Muntahia Bittamleek	35,766,043	-	-	-	35,766,043
Investment properties	3,750,980	-	3,750,980	-	-
Ijarah Muntahia Bittamleek receivables	1,560,091	-	-	1,560,091	-
Trade and other receivables	329,812	241,743	88,069	-	-
Property and equipment	241,357	-	-	241,357	-
Total assets	45,113,474	1,180,775	5,736,799	1,876,848	36,319,052
Equity and Liabilities					
Shareholder's equity	25,452,452	-	-	-	25,452,452
Islamic financing	16,775,989	4,901,183	11,874,806	-	-
Other liabilities	2,871,533	154,306	2,694,040	23,187	-
Charity fund	13,500	13,500	-	-	-
Total equity and liabilities	45,113,474	5,068,989	14,568,846	23,187	25,452,452

Notes to the financial statements

for the year ended 31 December 2008

21 Maturity profile (continued)

	31 December 2007				
	Carrying amount BD	Upto 3 months BD	From 6 to 12 months BD	From 1 to 5 years BD	From 6 to 20 years BD
Assets					
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	-	-
Trade and other receivables	491,060	280,628	181,644	28,788	-
Ijarah Muntahia Bittamleek Receivables	776,347	-	-	776,347	-
Property and Equipment	298,597	-	-	298,597	-
Total assets	42,242,418	3,560,025	6,202,624	1,103,732	31,376,037
Equity and Liabilities					
Shareholder's equity	23,646,342	-	-	-	23,646,342
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	-	-	-
Total equity and liabilities	42,242,418	2,616,373	15,979,703	-	23,646,342

The distribution of assets and liabilities by geographic and industry sectors as at 31 December 2008 and 2007 is as follows:

	2008		2007	
	BD Assets	BD Liabilities & Equity	BD Assets	BD Liabilities & Equity
Geographic sector				
Gulf Co-Operation Council (GCC)	45,113,474	45,113,474	42,242,418	42,242,418
	2008		2007	
	BD Assets	BD Liabilities & Equity	BD Assets	BD Liabilities & Equity
Industry sector				
Bank and financial institutions	2,658,648	31,113,989	3,345,071	27,171,650
Individuals	38,040,129	3,686,138	32,341,514	4,720,040
Real estate	4,149,030	1,555,974	6,198,224	2,409,191
Others	265,667	8,757,373	357,609	7,941,537
	45,113,474	45,113,474	42,242,418	42,242,418

Notes to the financial statements

for the year ended 31 December 2008

22 Commitments

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

	2008 BD	2007 BD
Investment in First Reef Company WLL	630,000	855,000
Purchase of property and equipment	-	1,399
Others	34,900	10,300
	664,900	866,699

23 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.

24 Social responsibility

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

25 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 investments 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.

26 Financial assets and liabilities and risk management

Financial assets and liabilities carried on the balance sheet include cash and bank balances, 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 national and multinational banks with good credit ratings. 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 and Musharaka financing, the Company has well defined policies for managing credit risk to 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.

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.

Notes to the financial statements

for the year ended 31 December 2008

26 Financial assets and liabilities and risk management (continued)

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, including unutilised credit facilities with banks, to meet its 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 dividends declared and paid by the Company.

27 Zakah

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

28 Comparative balances

Certain comparative balances have been reclassified, wherever necessary to conform with the presentation adopted at 31 December 2008. Such reclassifications do not affect the previously reported net profit.