

Being The Best Real Estate Finance
TOGETHER



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**His Royal Highness Prince
Khalifa Bin Salman Al Khalifa**
The Prime Minister



**His Majesty King Hamad
Bin Isa Al Khalifa**
The King of The Kingdom of Bahrain



**His Royal Highness Prince
Salman Bin Hamad Al Khalifa**
The Crown Prince and Deputy
Supreme Commander



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Vision

“Reef is the premier financing house in the Kingdom of Bahrain, differentiated by its superiority in providing tailored 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 processes 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.

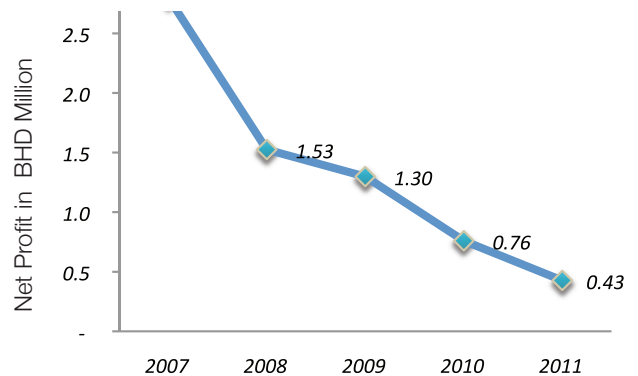
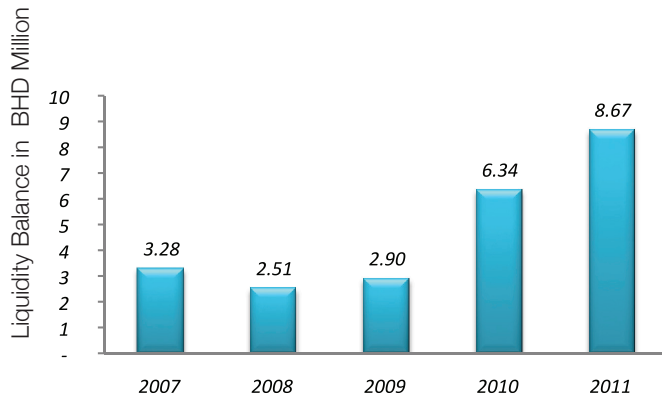
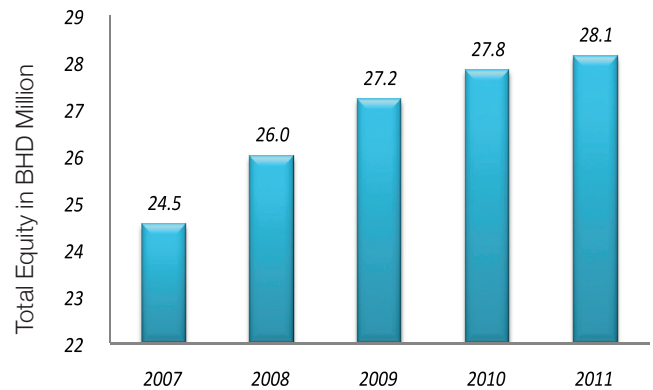
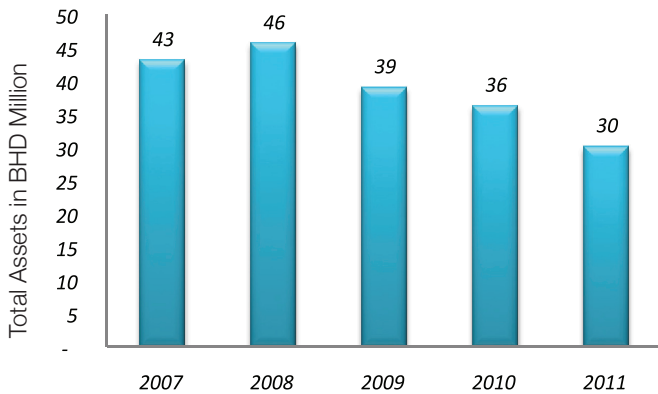
ACCOMPLISHMENT

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.



FINANCIAL HIGHLIGHTS

	December 2011	December 2010
Return of Equity	1.5%	2.8%
Return of Assets	1.4%	2.1%



Ali Ahmed Al Baghli

Chairman



Chairman's Message

Dear distinguished shareholders,

I am pleased to present to you our annual report for the fiscal year ended in 31 December, 2011 including the closing statements and the key financial indicators that reflect the company's performance and the developments that took place on its operations of Islamic Real Estate Finance for retail individuals.

last year was an exceptional year for us with all that the word exceptional means, 2011 came with further difficulties and challenges to the firms and institutions in all sectors, especially banking and finance sector which has already begun to heal its wounds and recover from the subsequences of the global financial crisis that it has faced in the previous years starting from the second half of 2008, as the biggest challenge was during such period concentrated on the ability to survive regardless of the level of profitability of the institution. Then, the Arab spring crisis raged the financial institutions just after they believed they were about to recover from such impactful global crisis.

On the economic level, the Arab countries lived one of two cases: either expecting change or living in the atmosphere of change itself and in both cases, the financial and banking institutions were suffering from recession and the suspense of growth due to the temporary suspension of production process in all sectors of development or because of the psychological factors associated with the political crises that have significantly contributed to reduce the volume of banking transactions.

The year 2011 was also full of difficulties and challenges in the Kingdom of Bahrain which encountered an internal crisis since the beginning of the year that affected in particular, the performance of financial institutions and commercial banks including of course Reef Real Estate Finance Co. whose performance is influenced negatively due to the lower demand on the real estate financing, the matter which led to a decline in the assets volume of the company (portfolio of assets) by 17% by the end of last year after the decline in the volume of financing provided to clients by 31% compared to the same period of last year, while net profits declined by 44% in 2011, an issue that

remains understood if we take into account the surrounding economic factors and the nature of the company's business.

In spite of the decrease in the company's level of profitability, the company has been able to maintain a level of acceptable returns during the past years as well as it was able to reduce the operating costs and general expenses, especially the financing cost of facilities obtained from banks, as the company continues to settle unnecessary banks loans.

We are fully confident that the sustainability of the Kingdom of Bahrain's position as an international financial center that continues to retain its prestige among other international financial centers is a matter that will certainly help institutions to rise again in the process of development and economic growth in the Kingdom.

In conclusion, on my behalf and on behalf of my brothers – members of the Board of Directors – I wish to extend my sincere thanks and appreciation to all our honorable shareholders for their continued support to the company and for the confidence that is given to us. Many thanks are also to my colleagues and brothers – the members of the Board of Directors for their constant efforts and assistance to accelerate the wheels of progress and growth for the best interest of the company.

I would also like to extend my sincere thanks and appreciation to the competent officials of the Central Bank of Bahrain, Ministry of Industry and commerce, Survey and Land Registration Bureau for all what the support and assistance they provided and still do to the Executive Management of the company.

Peace, mercy and blessings of Allah be upon you,

Ali Ahmed Al Baghli
Chairman



Ali Ahmed Albaghli
Chairman



Saud Kanoo
Vice Chairman



Faisal Matrook
Board Member



Nasser Al Gharibah
Board Member

Board of Directors

Members of the Executive Committee

Faisal Al Matrook
Chairman

Saud Kanoo
Member

Nasser Al Gharibah
Member



Dr. Khalid Abdulla
Board Member



Samer Abbouchi
Board Member



Mohamed Al Dossari
Board Member

Members of the Audit Committee

Dr. Khalid Abdulla
Chairman

Samer Abbouchi, CFA
Member

Mohammed Al Dossari
Member



Mahmood Al Koofi
Chief Executive Officer

Management Review

The company achieved a gross income amounted 2.2 million Bahraini Dinars until the end of the year 2011 with a decline of 24% compared to 2010 as the finances which provided by the company to customers have decreased due to continuing stagnation in the real estate sales in Kingdom of Bahrain to an unprecedented level, the matter which led to the reduced demand on the real estate funds of individuals during the year. On the parallel side, most of the commercial banks in Kingdom of Bahrain reduced the level of interest rates on the mortgage loans, the matter which led to the creation of an extremely competitive in turn led to that many of the company customers transferred to the banks that on one hand had enjoyed a surplus in their liquidity at that time and a decrease in the demand on financing on the other hand.

The decline in the funds portfolio volume by 31% from what it was at the end of year 2010 has led to decline of the net profit by 44% compared to what it was at the end of last year. As our net profits reached 428 thousand Dinars against 760 thousand Dinars' till the end of year 2011. In spite of this sharp drop in the net profit achieved by the company, it continued in its ongoing efforts where general decrease in the operating expenses also keep pace with that which decreased in turn at percentage reached about 40% while the cost of financing incurred by the company to other banks by a percentage of 37% at the end of the year.

The assets of the company decreased to 30 million Dinars i.e. with a decline rate amounted 17% concerning the same period in the last year. This comes as a natural result of the decline that has occurred in the funds portfolio volume provided by the company during the last year.

On the positive side, the shareholders' equity of the company has increased to reach 28 million Dinars with an increase of 1% of what it was in the end of 2010, the matter which prompted the board of directors to give recommendation to distribute the dividends on the shareholders for year 2012 after obtaining the required approvals from the official bodies and shareholders in their next meeting.

The company was able to sell or lease the remainder of the Tala apartments owned by the company in Amwaj Island and we are still making efforts to sell all the leased apartments during the year.

The Juffair Residential Project has remained as it is without any significant developments because of the circumstances of this region in particular which lost its luster clearly, the matter which made the Board seriously consider the possibility of selling this land and making disassociation with the project in agreement with the other shareholders in the project, knowing that the company only owns a quota of 45% of the project.

During 2011, the company has paid all the debts that were payable to the commercial banks with the exception of one of these debts which were payable during the first half of 2012 and the company substituted that by the amounts recovered from customers who have decided to make the early repayment of debts to the company and that because of the fierce competition witnessed by the Kingdom due to reducing the interest rates on the mortgage loans and of course, the

company has an abundance of surplus liquidity as a result of these early repayments where the company invested them in short term deposits with Bahraini Banks in order to find the suitable investment opportunities to invest these surpluses in the future, Allah willing or re-providing them as a part of the financing process provided by the company.

The total appropriations made by the company in anticipation of the potential losses due to failure of some customers to pay the debts payable to the company about one million Dinars until the end of the year 2011 where some of which by 340 thousand was allocated to the Public Allocations and the remainder of that amount of money was allocated to the potential cases of defaulting to pay the debts of the customers and because of the lease contracts nature that ending with ownership, the company through the legal channels have already embarked on the actual ownership of some private property of some customers defaulting to pay their debts for selling them in the market in order to recover amounts payable for the company.

The executive management is working, in coordination with the Board members who have spared no effort to provide the necessary support and the continued backing for the company, on studying some investment opportunities in inside and outside Bahrain Kingdom. At the same time, the company maintains the continuation of its financing business for the individuals in accordance with the rules and regulations of Bahrain Central Bank. The executive management also continues to do its efforts to provide new products and services in the future.

The executive management and all the company personnel thank to all the noble-minded shareholders and in particular the members of the venerable Board of Directors who have continued to provide all kinds of support for the company during the previous period and thanks go also to the brethren officials in Bahrain Central Bank, Survey and Land Registration Bureau, Ministry of Industry and Trade for their continuous support for the company.

We hope that the Almighty Allah to bless our beloved country by the grace of safety, security and stability that is the best Allah and the Most Generous respondent.

Peace, mercy and blessings of Allah be upon you



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 28 years of strategic management, consultancy and business development experience.



Hassan Dhaif, CPA
Chief Financial Officer & HR

CPA from the (AICPA, USA), B.Sc accounting from the University of Bahrain.
Over 16 years of audit, telecom, finance and banking experience.



Ali Salem
Head of Operations

MBA in Business Administration (University of Hull, UK) and Diploma in Business Study from University of Bahrain. Over 27 years in operations, retail, customer services, product development in the banking industry



Fadhel Mansour
Head of Business

More than 26 years banking experience, mainly in Relationship Management, Business Development, Structured Finance and Investment Banking. Held senior positions and worked with prime international and regional banks, Has MBA in Business Administration.



Eyad Al-Sammak
Manager - Compliance &
Money Laundering
Reporting Officer

B.Sc in Accounting (University of Bahrain). Over 15 years experience in compliance, anti-money laundering, finance, and retail banking experience.



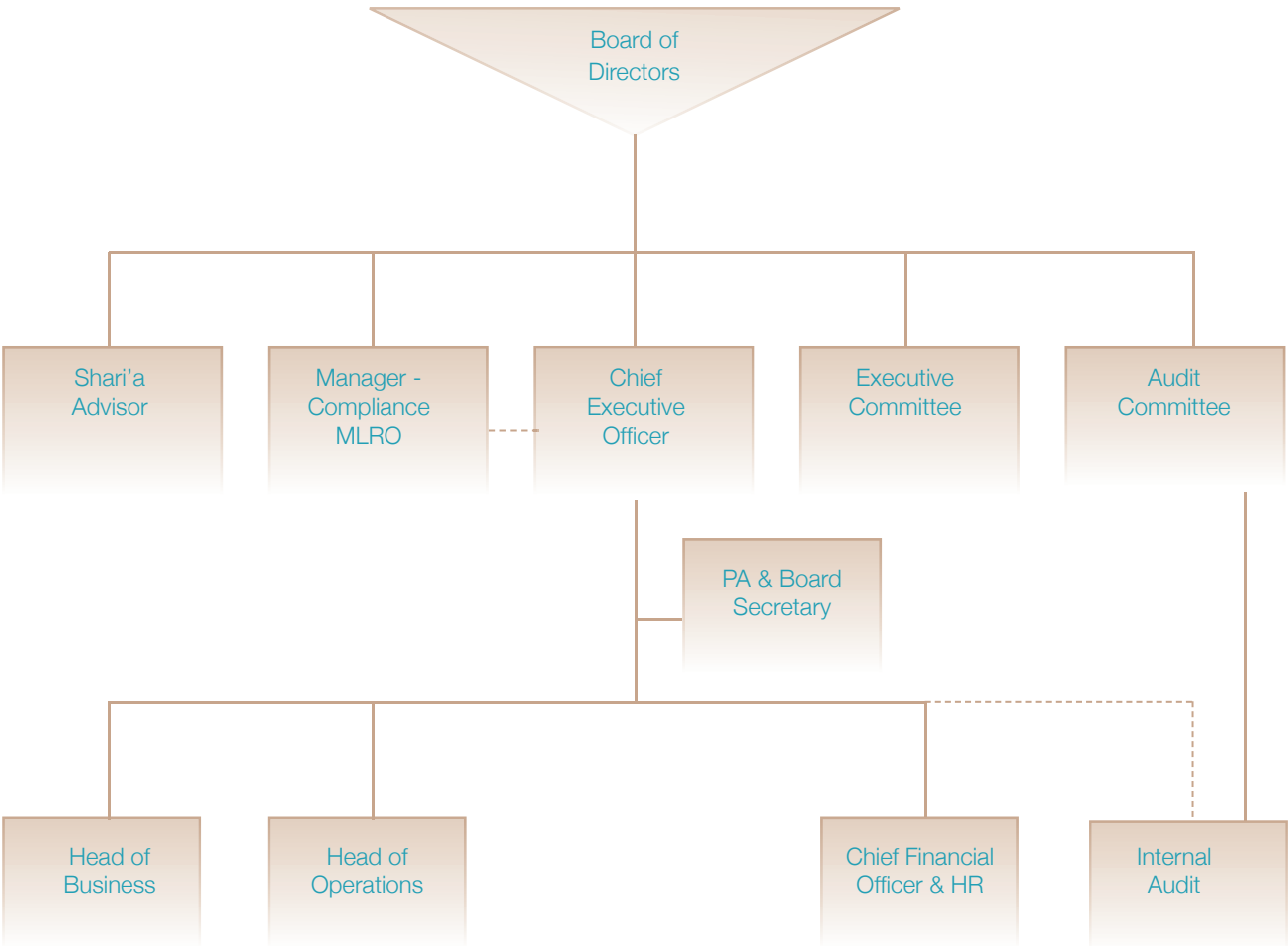
Corporate Social Responsibility

We embrace and support partnerships of mutual benefits; this has always lead us to better serve our organisation as well as our community.

Reef - Real Estate Finance Company adopts a Sharia compliant business model, our financing terms, are supported by a set of rules, policies and procedures and take into consideration the interest of our shareholders, our customers and other stakeholders.



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	Executive Committee	Audit Committee	Management Committee
Ali Al Baghli Chairman	Faisal Al Matrook Chairman	Dr. Khalid Abdulla Chairman	Mahmood Al Koofi Chief Executive Officer
Saud Kanoo Vice Chairman	Saud Kanoo Member	Samer Abbouchi, CFA Member	Hassan Dhaif, CPA Chief Financial Officer & HR
Faisal Al Matrook Board Member	Nasser Al Gharibah Member	Mohamed Al Dossari Member	Ali Salem Head of Operations
Nasser Al Gharibah Board Member			Fadhel Mansour Head of Business
Dr. Khalid Abdulla Board Member			Eyad A.Aziz Al-Sammak Manager -Compliance & Money Laundering Reporting Officer
Samer Abbouchi, CFA Board Member			
Mohamed Al Dossari Board Member			

Frame Work

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.



Shaikh Dr. Osama Mohammed Bahar Shari'ah Supervisory Advisor

Shariah Supervisory Advisor Report

For the period from 1st January 2011 to 31st December 2011

Praise be to Allah, prayer and peace upon our master Muhammad the Imam of the Prophets and Messengers and his family and companions and allies.

It has been submitted to the Company's Shari'ah Supervisory Advisor the investment and financing operations as well as the activities done by the Company. The Shari'ah Supervisory Advisor as well reviewed the audited financial statements for the period from 1st January 2011 to 31st December 2011.

The review was commissioned to issue an opinion on whether the Company had followed the principles and provisions of the Islamic Shari'ah and fatwas issued by the Shari'ah Advisor of the Company. Where the responsibility lies with the Company to ensure that its operations are in compliance with the issued Shari'ah legitimate, our responsibility is limited to express an independent opinion on the Company's operations done during the current year, and therefore decides the following:

- The Company's contracts, transactions and operations for the year ended 31st December 2011 are in compliance with the provisions and principles of Islamic Shari'ah.
- The calculation of the Company's profits and the losses charged to its investment operations are in compliance with the provisions and principles of the Islamic Shari'ah.
- The realized earnings from sources that are not compatible with the principles and provisions of Shari'ah have been donated for charitable purposes.

And Allaah is the Source of Successes.

Shaikh Dr. Osama Mohammed Bahar
Shari'ah Supervisory Advisor

Financial Statements

For the year ended 31 December 2011



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Independent Auditors' Report

To the Shareholders of Reef Real Estate Finance Co. B.S.C. (c)



Report on the financial statements

We have audited the accompanying financial statements of Reef Real Estate Finance Co. B.S.C. (c) ("the Company"), which comprise the statement of financial position as at 31 December 2011, the statement of income, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, 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 Shari'a Rules and Principles as determined by the Shari'a Advisor of the Company.

Independent Auditors' Report

To the Shareholders of Reef Real Estate Finance Co. B.S.C. (c)

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Central Bank of Bahrain (CBB) Rule Book Volume 5, we report that: the Company has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the chairman's report is consistent with the financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book Volume 5 and CBB directives, or the terms of the Company's license, memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

The logo for BDO, consisting of the letters 'B', 'D', and 'O' in a stylized, hand-drawn font.

Manama, Kingdom of Bahrain

5 March 2012

Statement of Financial Position

At 31 December 2011 (Expressed in Bahraini Dinars)

	Notes	31 December 2011	31 December 2010
Assets			
Cash and bank balances	5	1,906,068	1,234,909
Investments:			
Investment in an associate	6	512,549	513,090
Mudaraba investments	7	6,762,469	5,106,387
Musharaka financing	8	74,392	231,097
Ijarah Muntahia Bittamleek	9	17,433,875	25,271,419
Investment properties	10	2,836,986	3,076,170
Receivables and prepayments	11	599,657	740,448
Property and equipment	12	28,010	82,774
Total assets		30,154,006	36,256,294
LIABILITIES AND EQUITY			
Liabilities			
Islamic financing	13	1,270,956	7,449,564
Other liabilities	14	750,851	994,761
		2,021,807	8,444,325
Equity			
Share capital	15	24,042,900	24,042,900
Statutory reserve	16(i)	866,066	823,304
Investment property fair value reserve	16(ii)	1,078,825	1,184,819
Charity reserve		8,314	9,710
Retained earnings		2,136,094	1,751,236
		28,132,199	27,811,969
Total liabilities and equity		30,154,006	36,256,294

These financial statements, set out on pages 24 to 40, were approved for issue by the Board of Directors on 5 March 2012 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Mahmood Al Koofi
Chief Executive Officer

Statement of Income

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

	Notes	31 December 2011	31 December 2010
Income			
Gross Ijarah revenue		3,962,675	4,652,264
Less: Depreciation on Ijarah Muntahia Bittamleek	9	2,291,115	2,165,214
		1,671,560	2,487,050
Profit from Musharaka financing		22,236	38,597
Profit from Mudaraba investments		263,114	157,542
Fee income from Ijarah Muntahia Bittamleek and Musharaka financing		76,319	69,018
Rental income from investment properties		50,990	-
Realised gain on sale of investment properties		112,505	127,174
		2,196,724	2,879,381
Expenses			
Staff costs		432,993	456,483
Finance costs	17	481,607	767,430
General and administrative expenses		375,444	397,996
Depreciation of property and equipment	12	54,919	72,282
Allowances and provisions		420,146	420,502
Depreciation on investment properties		154	-
Share of net loss from investment in an associate	6	541	23
		1,765,804	2,114,716
Net profit for the year before transfer to charity reserve			
Contribution to charity reserve	19	3,300	5,000
Net profit for the year			
Basic and diluted earnings per share			
	18	1.8 Fils	3.2 Fils

Statement of Comprehensive Income

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

	31 December 2011	31 December 2010
Net profit for the year	427,620	759,665
Net movement in the fair value reserve on the sale of investment properties	(105,994)	(162,374)
Total comprehensive income for the year	321,626	597,291

Statement of changes in equity

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

	Share capital	Statutory reserve	Investment property fair value reserve	Charity reserve	Retained earnings	Total
At 31 December 2009	22,898,000	747,337	1,347,193	6,500	2,212,438	27,211,468
Bonus shares issued	1,144,900	-	-	-	(1,144,900)	-
Charity reserve movement	-	-	-	3,210	-	3,210
Total comprehensive income	-	-	(162,374)	-	759,665	597,291
Transferred to statutory reserve	-	75,967	-	-	(75,967)	-
At 31 December 2010	24,042,900	823,304	1,184,819	9,710	1,751,236	27,811,969
Charity reserve movement	-	-	-	(1,396)	-	(1,396)
Total comprehensive income	-	-	(105,994)	-	427,620	321,626
Transferred to statutory reserve	-	42,762	-	-	(42,762)	-
At 31 December 2011	24,042,900	866,066	1,078,825	8,314	2,136,094	28,132,199

Statement of Cash Flows

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

	Notes	31 December 2011	31 December 2010
Operating activities			
Net profit for the year		427,620	759,665
Adjustments for:			
Depreciation on property and equipment	12	54,919	72,282
Depreciation on Ijarah Muntahia Bittamleek	9	2,291,115	2,165,214
Depreciation on investment properties		154	-
Realised gains on sale of investment properties		(112,505)	(127,174)
Share of net loss from an associate	6	541	23
Transfer to charity	19	3,300	5,000
Finance costs	17	481,607	767,430
Changes in operating assets and liabilities:			
Receivables and prepayments		140,791	(286,414)
Other liabilities		(243,910)	(357,128)
Net cash provided by operating activities		3,043,632	2,998,898
Investing activities			
Investment in an associate	6	-	(116,004)
Addition in investment properties	10	(36,164)	-
Purchase of property and equipment	12	(155)	(8,613)
Proceeds from sale of investment properties		281,705	386,373
Net movement in Ijarah Muntahia Bittamleek		5,546,429	3,828,658
Net movement in Musharaka financing		156,705	152,412
Net cash provided by investing activities		5,948,520	4,242,826
Financing activities			
Net movement in Islamic financing		(6,178,608)	(3,026,874)
Charity payment		(4,696)	(1,790)
Finance costs paid	17	(481,607)	(767,430)
Net cash used in financing activities		(6,664,911)	(3,796,094)
Net increase in cash and cash equivalents		2,327,241	3,445,630
Cash and cash equivalents, beginning of the year		6,341,296	2,895,666
Cash and cash equivalents, end of the year		8,668,537	6,341,296
Comprising:			
Cash and bank balances		1,906,068	1,234,909
Mudaraba investments		6,762,469	5,106,387
		8,668,537	6,341,296

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

1. Organisation and principal activities

Reef Real Estate Finance Co. B.S.C. (c) ("the Company") is a closed shareholding company and operates as an Islamic financing company under license number 58073 granted by the Ministry of Commerce and Central Bank of Bahrain ("CBB") license number FC/001 obtained on 5 May 2005.

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. 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 CBB 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.

3. Significant accounting policies

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

Property and equipment

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 economic 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.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

3. Significant accounting policies (continued)

Investment in an associate

The Company's investment in its associate is accounted under the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. The financial statements of the associate are used by the Company to apply the equity method. The reporting dates of the associate and the Company are identical and both use consistent accounting policies.

The investment in associate is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The statement of income reflects the Company's share of the results of operations of the associate. Where there has been a change recognised directly in the associates' equity, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in shareholders' equity.

Mudaraba investments

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

Musharaka financing

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

Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at historical cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the period of the lease term (except for land, which is deemed to have an indefinite life).

The Company assesses at each financial position date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying value of the asset and the estimated recoverable amount as per contractual terms. Impairment losses, if any, are recognised in the statement of income.

Investment properties

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

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.

Receivables and prepayments

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

Islamic financing

Islamic financing liabilities comprise Murabaha and Wakalah financing and are stated at amortised cost.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation in future, and the amount of the obligations can be reliably estimated.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

3. Significant accounting policies (continued)

Employee benefits

Employee benefits and entitlements to annual leave, holiday 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 Social Insurance Organisation 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.

Impairment of financial assets

An assessment is made at each statement of financial position 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 profit rate.

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

Revenue recognition

a) Income from Ijarah Muntahia Bittamleek

Revenue from assets acquired for Ijarah Muntahia Bittamleek (leasing) contracts are recognised proportionately over the terms of the lease.

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.

Compliance with Shari'a rules and principles

The Company has appointed a Shari'a Supervisory Advisor in accordance with the terms of its Articles of Association. The Shari'a Supervisory Advisor reviews the Company's compliance with general Shari'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 Shari'a principles.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

3. Significant accounting policies (continued)

Earnings prohibited by Shari'a

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

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.

Zakah

The responsibility of payment of Zakah is on the shareholders. Zakah payable is computed by the Company on the basis of the method prescribed by the Company's Shari'a Supervisory Advisor and in line with AAOIFI standards.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and Mudarbah investments.

4. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements in accordance with AAOIFI requires the company's management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reporting period. The determination of the estimates requires judgments which are based on the historical experience, current and expected economic conditions, and all other available information. Actual result could differ from those estimates.

The most significant areas requiring the use of the management estimates and assumptions relate to

- fair valuation of investment properties;
- allowances; and
- contingencies.

Fair valuation of investment properties

The company obtains annually, several independent property valuations from independent property valuers, covering all the investment properties. The management exercises their judgment in selecting one of these independent valuations, depending on the current overall economic conditions. Due to the current economic climate the independent valuations differ significantly and are changing over a relatively short period of time.

Allowances

The company creates allowances for doubtful receivables relating to Ijarah Muntahia Bittamleek and Musharaka to account for estimated losses resulting from the inability of customers to make the required payments. When evaluating the adequacy of an allowance for doubtful receivables relating to Ijarah Muntahia Bittamleek and Musharaka, management takes into account the current overall economic conditions, ageing of the receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur.

The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

5. Cash and bank balances

	31 December 2011	31 December 2010
Current account balances with banks	1,905,568	1,234,409
Cash on hand	500	500
	1,906,068	1,234,909

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

6. Investment in an associate

	31 December 2011	31 December 2010
Investment		
Opening balance	14,586	14,609
Shares in reserve	(270)	-
Share of net loss for the year	(271)	(23)
Closing balance	14,045	14,586
Advance to an associate		
Opening balance	498,504	382,500
Paid during the year	-	116,004
Closing balance	498,504	498,504
Total	512,549	513,090

The Company's investment in an associate represents 45% of the issued share capital in First Reef Company B.S.C.(c). The Company's share of loss in the associate has been ascertained based on unaudited management accounts for the year ended 31 December 2011.

The advance to the associates will be used to purchase additional share capital to be issued during 2012. The Company's holding will remain at 45% of the issued share capital of the associate after this transaction is complete.

7. Mudaraba investments

	31 December 2011	31 December 2010
Ithmaar Bank	6,691,892	5,033,023
Khaleeji Commercial Bank	70,577	73,364
	6,762,469	5,106,387

Mudaraba investments represent amounts placed with financial institutions. Profit from Mudaraba investments are recognised over the period of the related investment.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

8. Musharaka financing

	31 December 2011	31 December 2010
Opening balance	236,168	388,580
Payment received during the year	(156,705)	(152,412)
	79,463	236,168
Provision for impairment	(5,071)	(5,071)
Closing balance	74,392	231,097

9. Ijarah Muntahia Bittamleek

	Land	Buildings	Total
Cost			
At 31 December 2009	11,230,228	23,860,713	35,090,941
Additions during the year	35,200	725,700	760,900
Payment received/disposals during the year	(2,496,197)	(2,344,079)	(4,840,276)
At 31 December 2010	8,769,231	22,242,334	31,011,565
Additions during the year	492,301	769,269	1,261,570
Provision utilised	-	(120,000)	(120,000)
Payment received/disposals during the year	(2,626,429)	(5,235,182)	(7,861,611)
At 31 December 2011	6,635,103	17,656,421	24,291,524
Depreciation			
At 31 December 2009	-	(3,591,910)	(3,591,910)
Charged for the year	-	(2,165,214)	(2,165,214)
Disposal during the year	-	352,059	352,059
At 31 December 2010	-	(5,405,065)	(5,405,065)
Charged for the year	-	(2,291,115)	(2,291,115)
Disposal during the year	-	1,173,612	1,173,612
At 31 December 2011	-	(6,522,568)	(6,522,568)
Impairment provision			
At 31 December 2009	-	(233,740)	(233,740)
Increase in provision	-	(101,341)	(101,341)
At 31 December 2010	-	(335,081)	(335,081)
Utilised during the year	-	120,000	120,000
Increase in provision	-	(120,000)	(120,000)
At 31 December 2011	-	(335,081)	(335,081)
Net book value			
At 31 December 2010	8,769,231	16,502,188	25,271,419
At 31 December 2011	6,635,103	10,798,772	17,433,875

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are leased under contracts that conclude with the transfer of the legal title (ownership) in the leased asset to the lessee at the end of the lease period for a token consideration. The Ijarah Muntahia Bittamleek contracts outstanding at 31 December 2011 have lease terms of up to 20 years.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

10. Investment properties

	Investment properties for capital appreciation	Investment properties for periodical consideration	Total
Cost/Revalued			
As at 31 December 2009	3,497,743	-	3,497,743
Disposals during the year	(421,573)	-	(421,573)
As at 31 December 2010	3,076,170	-	3,076,170
Transfer from investment properties for capital appreciation to periodical consideration	(781,668)	781,668	-
Additions during the year	-	36,164	36,164
Disposals during the year	(275,194)	-	(275,194)
As at 31 December 2011	2,019,308	817,832	2,837,140
Depreciation			
As at 31 December 2010	-	-	-
Charge for the year	-	154	154
As at 31 December 2011	-	154	154
Net book value			
At 31 December 2010	3,076,170	-	3,076,170
At 31 December 2011	2,019,308	817,678	2,836,986

Included in investment properties for periodical consideration is the net book value of furniture & fixtures of BD21,583 which is depreciated over their useful life.

During December 2011, the Company obtained an open market valuation of its investment properties from an independent real estate valuer, which reflected the total value of the properties at BD2,837,888 resulting in an unrealised fair value gain amounting to BD22,485 (2010: BD8,081). However, on a conservative basis, the management of the Company has taken a decision not to include the current year's unrealised fair value gain in the statement of changes in equity.

11. Receivables and prepayments

	31 December 2011	31 December 2010
Ijarah Muntahia Bittamleek rental receivables	762,198	474,624
Allowance for doubtful Ijarah Muntahia Bittamleek rental Receivables	(511,143)	(218,733)
	251,055	255,891
Other receivables net of provision	321,771	459,770
Accrued profit on Mudaraba investments	26,831	24,787
	599,657	740,448

Other receivables included a receivable that was provided for in full in 2010 amounting to BD100,248.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

12. Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer hardware and software	Motor vehicles	Total
Cost						
At 31 December 2009	152,429	47,190	46,280	123,935	36,880	406,714
Additions	1,851	-	-	6,762	-	8,613
At 31 December 2010	154,280	47,190	46,280	130,697	36,880	415,327
Reclasificaton	-	-	180	(180)	-	-
Additions	-	-	155	-	-	155
Disposal	-	-	-	(950)	-	(950)
At 31 December 2011	154,280	47,190	46,615	129,567	36,880	414,532
Accumulated depreciation						
At 31 December 2009	82,628	26,151	28,132	90,438	32,922	260,271
Charge for the year	30,486	9,428	8,802	19,608	3,958	72,282
At 31 December 2010	113,114	35,579	36,934	110,046	36,880	332,553
Charge for the year	30,979	8,547	6,989	8,404	-	54,919
Disposal	-	-	-	(950)	-	(950)
At 31 December 2011	144,093	44,126	43,923	117,500	36,880	386,522
Net book value						
At 31 December 2010	41,166	11,611	9,346	20,651	-	82,774
At 31 December 2011	10,187	3,064	2,692	12,067	-	28,010

The Company operates from premises leased at a monthly rental of BD6,000 (2010: BD8,500) per month.

13. Islamic financing

	31 December 2011	31 December 2010
Future Bank	-	2,012,083
Kuwait Finance House	-	1,903,677
Al Baraka Islamic Bank	1,270,956	1,896,293
Ithmaar bank	-	1,637,511
	1,270,956	7,449,564

The financing from Al Baraka Islamic Bank is secured by way of a mortgage against Ijarah Muntahia Bittamleek agreements entered into by the Company. The financing of the Company bears an average profit rate of 7% (2010: 7.7%) per annum.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

14. Other liabilities

	31 December 2011	31 December 2010
Musharaka financing and Ijarah Muntahia Bittamleek payables	215,042	394,790
Other payables	480,309	551,247
Accrued expenses	55,500	48,724
	750,851	994,761

15. Share capital

	31 December 2011	31 December 2010
Authorised		
400,000,000 (2010: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
240,429,000 (2010: 240,429,000) ordinary shares of 100 Fils each	24,042,900	24,042,900

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 2011 and 2010 are as follows:

		31 December 2011	
	Nationality	Number of shares	Percentage of share holding Interest
National International Holding K.S.C.(c)	Kuwaiti	48,085,800	20%
Global Investment House K.S.C.(c)	Kuwaiti	40,872,930	17%
Inovent B.S.C.	Bahraini	24,042,900	10%
Ossis Property Developers B.S.C.(c)	Bahraini	24,042,900	10%
Safi Financial Services	Kuwaiti	24,042,900	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
		174,311,025	72.50%
		31 December 2010	
	Nationality	Number of shares	Percentage of share holding Interest
National International Holding K.S.C.(c)	Kuwaiti	48,085,800	20%
Global Investment House K.S.C.(c)	Kuwaiti	40,872,930	17%
Inovent B.S.C.	Bahraini	24,042,900	10%
Ossis Property Developers B.S.C.(c)	Bahraini	24,042,900	10%
Safi Financial Services	Kuwaiti	24,042,900	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
		174,311,025	72.50%

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

16. Reserves

(i) 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 issued share capital is set aside. During the year, an amount of BD42,762 has been transferred to the statutory reserve (2010: BD75,967).

(ii) Investment property fair value

The revaluation reserve represents the net surplus arising on revaluation of investment properties (Note 10). This reserve is not available for distribution.

17. Finance costs

	Year Ended 31 December 2011	Year Ended 31 December 2010
Wakalah financing costs	-	22,568
Murabaha financing costs	481,607	744,862
	481,607	767,430

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.

	31 December 2011	31 December 2010
Net profit attributable to the shareholders	BD 427,620	BD 759,665
Weighted average number of ordinary shares	240,429,000	240,429,000
Basic and diluted earnings per share	1.8 Fils	3.2 Fils

19. Directors' remunerations and charity

Directors remuneration amounting to BD35,000 and charity contributions of BD 3,300 for the year ended 31 December 2010 were approved by the shareholders in the Annual General Meeting dated 16 June 2011. Directors' remuneration and Charity contribution is accounted through the statement of income in the year in which it is approved by the shareholders.

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.

A summary of the amounts due from related parties included in Ijarah Muntahia Bittamleek is as follows:

	31 December 2011	31 December 2010
Amounts due from related parties		
Shareholders, directors and immediate family members	783,556	927,071

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

21. Maturity profile

Maturity profile of assets and liabilities is as follows:

	At 31 December 2011				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years & above
Assets					
Cash and bank balances	1,906,068	1,906,068	-	-	-
Investment in an associate	512,549	-	-	512,549	-
Mudaraba investments	6,762,469	6,762,469	-	-	-
Musharaka financing	74,392	-	-	-	74,392
Ijarah Muntahia Bittamleek	17,433,875	38,741	12,542	2,748,092	14,634,500
Investment properties	2,836,986	-	-	2,836,986	-
Receivables and prepayments	599,657	181,274	44,236	374,050	97
Property and equipment	28,010	18,852	9,158	-	-
Total assets	30,154,006	8,907,404	65,936	6,471,677	14,708,989
Equity and liabilities					
Share capital	24,042,900	-	-	-	24,042,900
Statutory reserve	866,066	-	-	-	866,066
Investment property fair value Reserve	1,078,825	-	-	1,078,825	-
Charity reserve	8,314	-	8,314	-	-
Retained earnings	2,136,094	-	-	-	2,136,094
Islamic financing	1,270,956	-	-	1,270,956	-
Other liabilities	750,851	1,200	749,651	-	-
Total equity and liabilities	30,154,006	1,200	757,965	2,349,781	27,045,060

22. Financial assets and liabilities and risk management

Financial assets and liabilities carried on the statement of financial position include cash and bank balances, Mudaraba investments, Ijarah Muntahia Bittamleek, Musharaka financing, receivables and prepayments, Islamic financing and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Capital management

Capital comprises shareholders' capital and reserves attributable to the shareholders of the Company.

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made to the objectives, policies and processes during the years ended 31 December 2011 and 2010.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt Islamic financing and other liabilities less cash and bank balances. Capital includes shareholders' capital and reserves attributable to the shareholders of the Company.

Since the company does not have any net debt as at 31 December 2011 and 2010, there is no gearing ratio.

Notes to the Financial Statements

For the year ended 31 December 2011 (Expressed in Bahraini Dinars)

22. Financial assets and liabilities and risk management (continued)

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 Bahraini 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, 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.

23. Subsequent events

There were no significant events subsequent to 31 December 2011 and occurring before the date of signing of the financial statements that would have a significant impact on these financial statements.