

Reef Real Estate Finance Co. BSC (c)

Condensed interim financial
information for the six months
ended 30 June 2010
(unaudited)

Reef Real Estate Finance Co. BSC (c)
Financial statements for the six months ended 30 June 2010

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Reef Real Estate Finance Co. BSC (c)
Administration and contact details as at 30 June 2010

Commercial registration no.	58073 obtained on 10 September 2005	
CBB license	FC/001 obtained on 7 November 2007	
Board of Directors	Mr Ali Ahmed Al Baghli Mr Saud Kanoo Mr Faisal Al Matrook Dr Khalid Abdulla Mr Nasser Abdulhadi Al Gharibah Mr Samer Abbouchi Mr Mohammed Al Dosari	(Chairman) (Vice-Chairman)
Chief Executive Officer	Mr Mahmood Al Koofi	
Executive Committee	Mr Faisal Al Matrook Mr Saud Kanoo Mr Nasser Abdulhadi Al Gharibah	(Chairman)
Audit Committee	Dr Khalid Abdulla Mr Samer Abbouchi Mr Mohammed Al Dosari	(Chairman)
Shari'a Supervisory Advisor	Shaikh Osama Bahar	
Registered office	Building 483, Road 1010 Block 410 PO Box 18599 Manama Kingdom of Bahrain	
Bankers	Ithmaar Bank Kuwait Finance House Al Baraka Islamic Bank Future Bank Bahrain Islamic Bank Khaleeji Commercial Bank Emirates Islamic Bank	
Auditors	BDO 10th & 11th Floors, GBCORP Tower Bahrain Financial Harbour PO Box 787 Manama Kingdom of Bahrain	

Review report on the condensed interim financial information by the independent auditor to the Board of Directors of Reef Real Estate Finance BSC (c)

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Reef Real Estate Finance BSC (c) (“the Company”) as at 30 June 2010, the condensed interim statement of income, the condensed interim statement of changes in shareholders’ equity, the condensed interim statement of cash flows for the six months then ended and selected explanatory notes. The Company’s Board of Directors is responsible for the preparation and presentation of this condensed interim financial information in accordance with 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 Supervisory Advisor of the Company. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity.*” A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information does not present fairly, in all material respects, the financial position of the Company as at 30 June 2010, and of its financial performance and its cash flows for the six months then ended in accordance with 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 Supervisory Advisor of the Company.

Manama, Kingdom of Bahrain
___ July 2010

Reef Real Estate Finance Co. BSC (c)
Condensed interim statement of financial position as at 30 June 2010
(unaudited)
(Expressed in Bahraini Dinars)

	<u>Notes</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
ASSETS			
Cash and bank balances	3	768,882	2,820,266
Investments:			
Investment in an associate	4	513,113	397,109
Mudaraba investments	5	5,073,364	75,400
Musharaka financing	6	367,640	383,509
Ijarah Muntahia Bittamleek	7	27,983,141	31,265,291
Investment properties	8	3,352,095	3,497,743
Receivables and prepayments	9	552,078	454,034
Property and equipment	10	<u>111,163</u>	<u>146,443</u>
Total assets		<u>38,721,476</u>	<u>39,039,795</u>
LIABILITIES AND EQUITY			
Liabilities			
Islamic financing	11	10,189,116	10,476,438
Other liabilities	12	<u>1,002,729</u>	<u>1,358,389</u>
		<u>11,191,845</u>	<u>11,834,827</u>
Equity			
Share capital	13	22,898,000	22,898,000
Statutory reserve		747,337	747,337
Investment property fair value reserve		1,291,095	1,347,193
Retained earnings		<u>2,593,199</u>	<u>2,212,438</u>
		<u>27,529,631</u>	<u>27,204,968</u>
Total liabilities and equity		<u>38,721,476</u>	<u>39,039,795</u>

The unaudited condensed interim financial information, set out on pages 4 to 14, were approved for issue by the Board of Directors on July 2010 and signed on their behalf by:

Ali Ahmed Al-Baghli
Chairman

Mahmood Al-Koofi
Chief Executive Officer

Reef Real Estate Finance Co. BSC (c)
Condensed interim statement of income for the six months ended 30 June 2010
(unaudited)
(Expressed in Bahraini Dinars)

	Notes	Six month period ended 30 June 2010	Six month period ended 30 June 2009	Three month period ended 30 June 2010	Three month period ended 30 June 2009
Income					
Gross Ijarah revenue		2,288,913	2,483,593	1,125,200	1,249,316
Less: depreciation on Ijarah Muntahia Bittamleek	7	<u>965,091</u>	<u>984,035</u>	<u>490,716</u>	<u>498,795</u>
		1,323,822	1,499,558	634,484	750,521
Profit from Musharaka financing		16,129	21,906	8,089	10,203
Profit from Mudaraba investments		49,526	8,597	34,725	4,803
Fees income from Ijarah Muntahia Bittamleek		36,553	18,651	20,019	15,649
Realised gains on sale of investment properties		<u>26,240</u>	<u>81,451</u>	<u>26,240</u>	<u>81,451</u>
		<u>1,452,270</u>	<u>1,630,163</u>	<u>723,557</u>	<u>862,627</u>
Expenses					
Staff costs		230,224	261,016	114,326	123,528
Finance costs	14	433,806	587,508	196,519	300,112
General and administrative expenses		210,810	210,383	115,862	100,065
Depreciation of property and equipment	10	41,863	47,793	19,190	23,857
Allowances and provisions	7 & 9	154,806	1,781	75,706	(1,869)
Directors' remuneration		-	15,000	-	-
		<u>1,071,509</u>	<u>1,123,481</u>	<u>521,603</u>	<u>545,693</u>
Net profit for the period		<u>380,761</u>	<u>506,682</u>	<u>201,954</u>	<u>316,934</u>
Basic and diluted earnings per share	15	<u>1.66 fils</u>	<u>2.21 fils</u>	<u>0.88 fils</u>	<u>1.38 fils</u>

The unaudited condensed interim financial information, set out on pages 4 to 14, were approved for issue by the Board of Directors on July 2010 and signed on their behalf by:

Ali Ahmed Al-Baghli
Chairman

Mahmood Al-Koofi
Chief Executive Officer

Reef Real Estate Finance Co. BSC (c)
Condensed interim statement of changes in equity for the six months ended 30 June 2010
(unaudited)
(Expressed in Bahraini Dinars)

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Investment property fair value reserve</u>	<u>Retained earnings</u>	<u>Total</u>
At 31 December 2008		21,400,000	615,209	1,444,730	2,542,786	26,002,725
Bonus shares issued		1,498,000	-	-	(1,498,000)	-
Net movement in investment property fair value reserve		-	-	(97,537)	-	(97,537)
Net profit for the year		-	-	-	1,299,780	1,299,780
Transferred to statutory reserve		-	<u>132,128</u>	-	<u>(132,128)</u>	-
At 31 December 2009		22,898,000	747,337	1,347,193	2,212,438	27,204,968
Net movement in investment property fair value reserve		-	-	(56,098)	-	(56,098)
Net profit for the period		-	-	-	<u>380,761</u>	<u>380,761</u>
At 30 June 2010		<u>22,898,000</u>	<u>747,337</u>	<u>1,291,095</u>	<u>2,593,199</u>	<u>27,529,631</u>

Reef Real Estate Finance Co. BSC (c)
Condensed interim statement of cash flows for the six months ended 30 June 2010
(unaudited)
(Expressed in Bahraini Dinars)

	Notes	Six month period ended 30 June 2010	Six month period ended 30 June 2009
Operating activities			
Net profit for the period		380,761	506,682
Adjustments for:			
Depreciation on property and equipment	10	41,863	47,793
Depreciation on Ijarah Muntahia Bittamleek	7	965,091	984,035
Realised gains on sale of investment properties		(56,098)	(81,451)
Finance costs	14	433,806	587,508
Changes in operating assets and liabilities:			
Receivables and prepayments		(98,044)	25,375
Other liabilities		<u>(355,660)</u>	<u>(797,913)</u>
Net cash provided by operating activities		<u>1,311,719</u>	<u>1,272,029</u>
Investing activities			
Investment in an associate	4	(116,004)	-
Net movement in Musharaka financing		15,869	133,903
Net movement in Ijarah Muntahia Bittamleek		2,317,059	2,493,203
Purchase of property and equipment	10	(6,583)	-
Proceeds from sale of property and equipment		-	277
Proceeds from sale of investment properties		<u>145,648</u>	<u>168,302</u>
Net cash provided by investing activities		<u>2,355,989</u>	<u>2,795,685</u>
Financing activities			
Islamic financing repaid, net	11	(287,322)	(1,601,849)
Finance costs paid	14	<u>(433,806)</u>	<u>(587,508)</u>
Net cash used in financing activities		<u>(721,128)</u>	<u>(2,189,357)</u>
Net increase in cash and cash equivalents		2,946,580	1,878,357
Cash and cash equivalents, beginning of the period		<u>2,895,666</u>	<u>2,514,431</u>
Cash and cash equivalents, end of the period		<u>5,842,246</u>	<u>4,392,788</u>
Comprising:			
Cash and bank balances	3	768,882	2,514,676
Mudaraba investments	5	<u>5,073,364</u>	<u>1,878,112</u>
		<u>5,842,246</u>	<u>4,392,788</u>

Reef Real Estate Finance Co. BSC (c)

Selected explanatory notes to the condensed interim financial information for the six months ended 30 June 2010 (unaudited)
(Expressed in Bahraini Dinars)

1 Organisation and principal activities

Reef Real Estate Finance Co. BSC (c) (“the Company”) is a closed Bahraini shareholding company which operates as an Islamic financing company under license number 58073 granted by the Ministry of Industry and Commerce and Central Bank of Bahrain (“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 Basis of preparation

The condensed interim financial information has 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 the AAOIFI, for matters for which no AAOIFI standards exist, the Company uses the relevant International Financial Reporting Standards (“IFRS”). The condensed interim financial information should therefore be read in conjunction with the annual audited financial statements of the Company for the year ended 31 December 2009, which have been prepared in accordance with IAS issued by AAOIFI.

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 Cash and bank balances

	30 June 2010	31 December 2009
Cash on hand	500	500
Current account balances with banks	<u>768,382</u>	<u>2,819,766</u>
	<u>768,882</u>	<u>2,820,266</u>

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

Reef Real Estate Finance Co. BSC (c)

Selected explanatory notes to the condensed interim financial information for the six months ended 30 June 2010 (unaudited)

(Expressed in Bahraini Dinars)

4 Investment in an associate

	30 June 2010	31 December 2009
Investment		
Opening balance	14,609	15,250
Share of net loss for the period/year	<u>-</u>	<u>(641)</u>
Closing balance	<u>14,609</u>	<u>14,609</u>
Advance to an associate		
Opening balance	382,500	382,500
Paid during the period/year	<u>116,004</u>	<u>-</u>
Closing balance	<u>498,504</u>	<u>382,500</u>
Total	<u>513,113</u>	<u>397,109</u>

The Company's investment in an associate represents 45% of the issued share capital of First Reef Company BSC(c). The Company's share of net loss in the associate has been ascertained based on audited accounts as at 31 December 2009.

It is management's intention to utilise the advances given to the associate increase the share capital of the associate during 2010.

5 Mudaraba investments

	30 June 2010	31 December 2009
Ithmaar Bank	2,000,000	-
Khaleeji Commercial Bank	<u>3,073,364</u>	<u>75,400</u>
	<u>5,073,364</u>	<u>75,400</u>

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

6 Musharaka financing

	30 June 2010	31 December 2009
Opening balance	388,580	558,080
Repayments during the period	<u>(15,869)</u>	<u>(169,500)</u>
	372,711	388,580
Less: provision for impairment	<u>(5,071)</u>	<u>(5,071)</u>
Closing balance	<u>367,640</u>	<u>383,509</u>

Reef Real Estate Finance Co. BSC (c)

Selected explanatory notes to the condensed interim financial information for the six months ended 30 June 2010 (unaudited)

(Expressed in Bahraini Dinars)

7 Ijarah Muntahia Bittamleek

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost			
At 31 December 2008	13,667,537	26,594,774	40,262,311
Additions during the year	479,307	189,358	668,665
Repayments/disposals during the year	<u>(2,916,616)</u>	<u>(2,923,419)</u>	<u>(5,840,035)</u>
At 31 December 2009	11,230,228	23,860,713	35,090,941
Repayments/disposals during the period	<u>(1,478,314)</u>	<u>(961,904)</u>	<u>(2,440,218)</u>
At 30 June 2010	<u>9,751,914</u>	<u>22,898,809</u>	<u>32,650,723</u>
Depreciation			
At 31 December 2008	-	2,230,822	2,230,822
Charge for the year	-	1,917,595	1,917,595
Disposals during the year	<u>-</u>	<u>(556,507)</u>	<u>(556,507)</u>
At 31 December 2009	-	3,591,910	3,591,910
Charge for the period	-	965,091	965,091
Disposals during the period	<u>-</u>	<u>(164,500)</u>	<u>(164,500)</u>
At 30 June 2010	<u>-</u>	<u>4,392,501</u>	<u>4,392,501</u>
Impairment provision			
At 31 December 2008	-	155,081	155,081
Provided for the year	<u>-</u>	<u>78,659</u>	<u>78,659</u>
At 31 December 2009	-	233,740	233,740
Provided for the period	<u>-</u>	<u>41,341</u>	<u>41,341</u>
At 30 June 2010	<u>-</u>	<u>275,081</u>	<u>275,081</u>
Net book amount			
At 30 June 2010	<u>9,751,914</u>	<u>18,231,227</u>	<u>27,983,141</u>
At 31 December 2009	<u>11,230,228</u>	<u>20,035,063</u>	<u>31,265,291</u>

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 for a token consideration.

The lease contracts outstanding at 30 June 2010 have lease terms of up to 25 years.

Reef Real Estate Finance Co. BSC (c)

Selected explanatory notes to the condensed interim financial information for the six months ended 30 June 2010 (unaudited)

(Expressed in Bahraini Dinars)

8 Investment properties

	30 June 2010	31 December 2009
Opening balance	3,497,743	3,750,980
Disposals during the year	<u>(145,648)</u>	<u>(253,237)</u>
Closing balance	<u>3,352,095</u>	<u>3,497,743</u>

9 Receivables and prepayments

	30 June 2010	31 December 2009
Ijarah Muntahia Bittamleek rental receivables	300,627	168,805
Allowance for doubtful ijarah Muntahia Bittamleek rental receivables	<u>(113,465)</u>	<u>-</u>
	187,162	168,805
Other receivables	344,770	284,710
Accrued profit on Mudaraba investments	<u>20,146</u>	<u>519</u>
	<u>552,078</u>	<u>454,034</u>

10 Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer hardware, and software	Motor vehicles	Total
Cost						
At 31 December 2008	152,429	46,464	46,280	125,715	36,880	407,768
Additions	-	726	-	-	-	726
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,780)</u>	<u>-</u>	<u>(1,780)</u>
At 31 December 2009	152,429	47,190	46,280	123,935	36,880	406,714
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,583</u>	<u>-</u>	<u>6,583</u>
At 30 June 2010	<u>152,429</u>	<u>47,190</u>	<u>46,280</u>	<u>130,518</u>	<u>36,880</u>	<u>413,297</u>
Accumulated depreciation						
At 31 December 2008	52,142	16,556	18,127	58,725	20,861	166,411
Charge for the year	30,486	9,595	10,005	32,800	12,061	94,947
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,087)</u>	<u>-</u>	<u>(1,087)</u>
At 31 December 2009	82,628	26,151	28,132	90,438	32,922	260,271
Charge for the period	<u>15,243</u>	<u>4,719</u>	<u>4,777</u>	<u>13,166</u>	<u>3,958</u>	<u>41,863</u>
At 30 June 2010	<u>97,871</u>	<u>30,870</u>	<u>32,909</u>	<u>103,604</u>	<u>36,880</u>	<u>302,134</u>
Net book amount						
At 30 June 2010	<u>54,558</u>	<u>16,320</u>	<u>13,371</u>	<u>26,914</u>	<u>-</u>	<u>111,163</u>
At 31 December 2009	<u>69,801</u>	<u>21,039</u>	<u>18,148</u>	<u>33,497</u>	<u>3,958</u>	<u>146,443</u>

The Company operates from premises leased at a monthly rental of BD8,500 (2009: BD8,500) per month.

Reef Real Estate Finance Co. BSC (c)**Selected explanatory notes to the condensed interim financial information for the six months ended 30 June 2010 (unaudited)****(Expressed in Bahraini Dinars)****11 Islamic financing**

	<u>30 June</u> <u>2010</u>	<u>31 December</u> <u>2009</u>
Future Bank	3,013,303	3,017,540
Bahrain Islamic Bank	1,445,733	2,079,167
Kuwait Finance House	1,903,800	2,011,290
Ithmaar Bank	1,920,800	1,848,400
Emirates Islamic Bank	-	1,133,641
Al-Baraka Islamic Bank	1,905,480	283,529
Calyon Bank	-	<u>102,871</u>
	<u>10,189,116</u>	<u>10,476,438</u>

12 Other liabilities

	<u>30 June</u> <u>2010</u>	<u>31 December</u> <u>2009</u>
Musharaka financing and Ijarah Muntahia Bittamleek payables	447,852	708,156
Other payables	498,475	606,918
Accrued expenses	<u>56,402</u>	<u>43,315</u>
	<u>1,002,729</u>	<u>1,358,389</u>

13 Share capital

	<u>30 June</u> <u>2010</u>	<u>31 December</u> <u>2009</u>
Authorised 400,000,000 (2009: 400,000,000) ordinary shares of 100 fils each	<u>40,000,000</u>	<u>40,000,000</u>
Issued and fully paid-up 228,980,000 (2009: 228,980,000) ordinary shares of 100 fils each	<u>22,898,000</u>	<u>22,898,000</u>

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

Reef Real Estate Finance Co. BSC (c)

Selected explanatory notes to the condensed interim financial information for the six months ended 30 June 2010 (unaudited)

(Expressed in Bahraini Dinars)

13 Share capital (continued)

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 30 June 2010 and 31 December 2009 are as follows:

	<u>Nationality</u>	<u>Number of shares</u>	<u>Percentage of shareholding interest</u>
National International Holding KSC(c)	Kuwaiti	45,796,000	20%
Global Investment House KSC(c)	Kuwaiti	38,926,600	17%
Inovent BSC	Bahraini	22,898,000	10%
Ossis Property Developers BSC(c)	Bahraini	22,898,000	10%
Safi Financial Services	Kuwaiti	22,898,000	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	<u>12,593,900</u>	<u>5.5%</u>
		<u>166,010,500</u>	<u>72.50%</u>

14 Finance costs

	Six month period ended 30 June 2010	Six month period ended 30 June 2009
Wakala financing costs	22,568	138,797
Murabaha financing costs	<u>411,238</u>	<u>448,711</u>
	<u>433,806</u>	<u>587,508</u>

15 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.

	Six month period ended 30 June 2010	Six month period ended 31 June 2009
Net profit attributable to the shareholders	<u>BD380,761</u>	<u>BD506,682</u>
Weighted average number of ordinary shares	<u>228,980,000</u>	<u>228,980,000</u>
Basic and diluted earnings per share	<u>1.66 Fils</u>	<u>2.21 Fils</u>

Reef Real Estate Finance Co. BSC (c)

**Selected explanatory notes to the condensed interim financial information for the six months ended 30 June 2010 (unaudited)
(Expressed in Bahraini Dinars)**

16 Matters proposed by the Board of Directors

The Board of Directors of the Company has proposed to issue bonus share at a rate of 5% to the existing shareholders, Directors' remuneration of BD30,000 and charity contributions of BD5,000 for the year ended 31 December 2009. The above proposals, except for the Directors' remuneration of BD30,000 have been approved by the shareholders in the Annual General Meeting.

17 Related party transactions

Related parties consist of the Shareholders and Directors, 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 significant transactions with related parties included in Ijarah Muntahia Bittamleek is as follows:

	Six months ended 30 June <u>2010</u>	Six months ended 30 June <u>2009</u>
Shareholders, directors and immediate family members	<u>Nil</u>	<u>Nil</u>

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

	30 June <u>2010</u>	31 December <u>2009</u>
Amounts due from related parties		
Shareholders, directors and immediate family members	<u>1,021,545</u>	<u>1,117,560</u>

18 Interim financial information

The interim net profit for the six months ended 30 June 2010 may not represent a proportionate share of the annual net income due to the variability in the receipt of income.

19 Comparative

Certain comparative balances have been reclassified, wherever necessary, to conform the presentation adopted in the current period.