

Reef Real Estate Finance Co. BSC (c)

Financial statements for the
year ended 31 December 2009

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Financial statements for the year ended 31 December 2009

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Reef Real Estate Finance Co. BSC (c)
Administration and contact details as at 31 December 2009

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 (Chairman) Mr Saud Kanoo (Vice-Chairman) Mr Faisal Al-Matrook Dr Khalid Abdulla Mr Nasser Abdulhadi Al Gharibah Mr Samer Abbouchi Mr Mohammed Al Dosari
Chief Executive Officer	Mr Mahmood Al Koofi
Executive Committee	Mr Faisal Al-Matrook (Chairman) Mr Saud Kanoo Mr Nasser Abdulhadi Al Gharibah
Audit Committee	Dr Khalid Abdulla (Chairman) Mr Samer Abbouchi Mr Mohammed Al Dosari Dr Jassim Alajmi (Independent member until 29 October 2009)
Shari'a Supervisory Advisor	Shaikh Osama Bahar from 1 August 2009 Dr Fareed Hadi until 31 July 2009
Registered office	Building 483, Road 1010 Block 410 PO Box 18599 Manama Kingdom of Bahrain
Bankers	Shamil Bank of Bahrain Kuwait Finance House Al Baraka Islamic Bank Future Bank Calyon Bank Bahrain Islamic Bank Khaleeji Commercial Bank Emirates Islamic Bank
Auditors	BDO PO Box 787 5 th Floor, UGB Tower Diplomatic Area Kingdom of Bahrain

Independent auditors' report to the shareholders of Reef Real Estate Finance Co. BSC (c)

Report on the financial statements

We have audited the accompanying financial statements of Reef Real Estate Finance Co. BSC (c) ("the Company"), which comprise the statement of financial position as at 31 December 2009, the statement of income, the statement of changes in 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

These financial statements and the Company's undertaking to operate in accordance with Islamic Shari'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.

Auditor's responsibility

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 policies 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 2009, 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.

Report on other legal and regulatory requirements

Further, as required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001 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, Decree Number 21 of 2001 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 2009.

Manama, Kingdom of Bahrain
4th March 2010

96067

Reef Real Estate Finance Co. BSC (c)
Statement of financial position at 31 December 2009
(Expressed in Bahraini Dinars)

	Notes	31 December 2009	Restated 31 December 2008	Restated 1 January 2008
ASSETS				
Cash and bank balances	6	2,820,266	939,031	1,200,106
Investments:				
Investment in an associate	7	397,109	397,750	270,000
Investment in property funds	8	-	-	2,000,000
Mudaraba investments	9	75,400	1,575,400	2,079,291
Musharaka financing	10	383,509	553,009	3,468,865
Ijarah Muntahia Bittamleek	11	31,265,291	37,876,408	29,574,919
Investment properties	12	3,497,743	3,750,980	3,750,980
Receivables and prepayments	13	454,034	329,812	491,059
Property and equipment	14	146,443	241,357	298,597
Total assets		<u>39,039,795</u>	<u>45,663,747</u>	<u>43,133,817</u>
LIABILITIES AND EQUITY				
Liabilities				
Islamic financing	15	10,476,438	16,775,989	13,771,650
Other liabilities	16	<u>1,358,389</u>	<u>2,885,033</u>	<u>4,824,426</u>
		<u>11,834,827</u>	<u>19,661,022</u>	<u>18,596,076</u>
Equity				
Share capital	17	22,898,000	21,400,000	20,000,000
Statutory reserve	18	747,337	615,209	428,598
Investment property fair value reserve	19	1,347,193	1,444,730	1,444,730
Retained earnings		<u>2,212,438</u>	<u>2,542,786</u>	<u>2,664,413</u>
		<u>27,204,968</u>	<u>26,002,725</u>	<u>24,537,741</u>
Total liabilities and equity		<u>39,039,795</u>	<u>45,663,747</u>	<u>43,133,817</u>

These financial statements, set out on pages 5 to 27, were approved for issue by the Board of Directors on 4th March 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)
Statement of income for the year ended 31 December 2009
(Expressed in Bahraini Dinars)

	Notes	<u>2009</u>	<u>Restated 2008</u>
Income			
Gross Ijarah revenue		5,048,570	4,721,741
Less: Depreciation on Ijarah Muntahia Bittamleek	11	<u>1,917,595</u>	<u>1,861,156</u>
		3,130,975	2,860,585
Profit from Musharaka financing		38,992	117,440
Profit from Mudaraba investments		11,349	123,554
Fees income from Ijarah Muntahia Bittamleek		81,446	379,438
Realised gains on investment in property funds	8	-	644,500
Realised gains on sale of investment properties		120,731	-
Other income		<u>-</u>	<u>6,400</u>
		<u>3,383,493</u>	<u>4,131,917</u>
Expenses			
Staff costs		395,562	697,287
Finance costs	20	1,066,463	1,130,139
General and administrative expenses	21	425,941	475,585
Depreciation of property and equipment	14	94,947	93,520
Provision for impairment of Ijarah Muntahia Bittamleek and Musharaka	11	78,659	113,152
Share of net loss from investment in an associate	7	<u>641</u>	<u>97,250</u>
		<u>2,062,213</u>	<u>2,606,933</u>
Net profit for the year transferred to retained earnings		<u>1,321,280</u>	<u>1,524,984</u>
Basic and diluted earnings per share	22	<u>5.8 Fils</u>	<u>6.7 Fils</u>

These financial statements, set out on pages 5 to 27, were approved for issue by the Board of Directors on 4th March 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)
Statement of changes in equity for the year ended 31 December 2009
(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 2007 (as previously reported)		20,000,000	428,598	1,444,730	1,773,014	23,646,342
Adjustments due to change in accounting policy	3	-	-	-	<u>891,399</u>	<u>891,399</u>
At 1 January 2008 - restated		20,000,000	428,598	1,444,730	2,664,413	24,537,741
Bonus shares issued		1,400,000	-	-	(1,400,000)	-
Charity	23	-	-	-	(20,000)	(20,000)
Directors' remuneration	23	-	-	-	(40,000)	(40,000)
Net profit for the year					1,524,984	1,524,984
Transferred to statutory reserve	18	-	<u>186,611</u>	-	<u>(186,611)</u>	-
At 31 December 2008		21,400,000	615,209	1,444,730	2,542,786	26,002,725
Bonus shares issued	17	1,498,000	-	-	(1,498,000)	-
Charity	23	-	-	-	(6,500)	(6,500)
Directors' remuneration	23	-	-	-	(15,000)	(15,000)
Net movement in fair value reserve	19	-	-	(97,537)	-	(97,537)
Net profit for the year					1,321,280	1,321,280
Transferred to statutory reserve	18	-	<u>132,128</u>	-	<u>(132,128)</u>	-
At 31 December 2009		<u>22,898,000</u>	<u>747,337</u>	<u>1,347,193</u>	<u>2,212,438</u>	<u>27,204,968</u>

Reef Real Estate Finance Co. BSC (c)
Statement of cash flows for the year ended 31 December 2009
(Expressed in Bahraini Dinars)

	<u>Notes</u>	<u>2009</u>	<u>Restated 2008</u>
Operating activities			
Net profit for the year		1,321,280	1,524,984
Adjustments for:			
Depreciation on property and equipment	14	94,947	93,520
Depreciation on Ijarah Muntahia Bittamleek	11	1,917,595	1,861,156
Realised gains on investment in property funds		-	(644,500)
Realised gains on sale of investment properties		(124,300)	-
Loss on sale of properties and equipment		693	-
Share of net loss from an associate	7	641	97,250
Finance costs	20	1,066,463	1,130,139
Changes in operating assets and liabilities:			
Receivables and prepayments		(124,221)	161,246
Other liabilities		(1,519,645)	(1,886,132)
Net cash provided by operating activities		<u>2,633,453</u>	<u>2,337,663</u>
Investing activities			
Purchase of property and equipment	14	(726)	(36,280)
Proceeds from sale of investment property fund	8	-	2,644,500
Proceeds from sale of investment properties		280,000	-
Net movement in Ijarah Muntahia Bittamleek		4,693,522	(10,162,645)
Net movement in Musharaka financing	10	169,500	2,915,856
Investments in an associate	7	-	(225,000)
Net cash provided by/(used in) investing activities		<u>5,142,296</u>	<u>(4,863,569)</u>
Financing activities			
Islamic financing (repaid)/received, net		(6,299,551)	3,004,339
Charity payment		(13,500)	(73,260)
Directors' remuneration paid	23	(15,000)	(40,000)
Finance costs paid	20	(1,066,463)	(1,130,139)
Net cash (used in)/provided by financing activities		<u>(7,394,514)</u>	<u>1,760,940</u>
Net increase/(decrease) in cash and cash equivalents		381,235	(764,966)
Cash and cash equivalents, beginning of the year		<u>2,514,431</u>	<u>3,279,397</u>
Cash and cash equivalents, end of the year		<u>2,895,666</u>	<u>2,514,431</u>
Comprising:			
Cash and bank balances	6	2,820,266	939,031
Mudaraba investments	9	75,400	1,575,400
		<u>2,895,666</u>	<u>2,514,431</u>

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 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

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 Change in accounting policy

Previously and as was a generally acceptable practice, the Company was applying the amortization table to the periodical collected rental for the recognition of its revenue on one hand, and to write down its investment in the Ijarah Muntahia Bittamleek assets on the other hand.

The company decided to change its accounting policy to be fully compliant with FAS Number 8, the Shari’a Supervisory Board’s rules and regulations and their own lease agreements. Ijarah Muntahia Bittamleek revenue is recognized as gross rentals received over the term of the lease and the Ijarah assets are recognized upon acquisition as assets at historical cost and depreciated over the term of the lease on a straight line basis.

Reef Real Estate Finance Co. BSC (c)
Notes to the financial statements for the year ended 31 December 2009
(Expressed in Bahraini Dinars)

3 Change in accounting policy (continued)

The retrospective impact and effect of the change in accounting policy on 31 December 2008 is as follows:

	<u>Previously Reported</u>	<u>Re-stated</u>	<u>Difference</u>
At 1 January 2008			
Statement of financial position only			
Ijarah Muntahia Bittamleek	28,725,448	30,851,882	2,126,434
Accumulated depreciation	(776,347)	(1,235,034)	(458,687)
Ijara Muntahia Bittamleek receivables	776,347	-	(776,347)
Retained earnings	(1,773,014)	(2,664,413)	(891,399)
At 31 December 2008			
Statement of financial position			
Ijarah Muntahia Bittamleek	37,430,809	40,262,311	2,831,502
Accumulated depreciation	(1,509,685)	(2,230,822)	(721,137)
Ijara Muntahia Bittamleek receivables	1,560,091	-	(1,560,091)
Retained earnings	(1,992,513)	(2,542,786)	(550,273)
Statement of income			
Gross Ijarah revenue	(4,412,483)	(4,721,741)	(309,258)
Depreciation of Ijarah Muntahia Bittamleek	1,210,772	1,861,156	650,384

4 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 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 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.

Investment in an associate

An associate is an entity over which the company exercises significant influence, but not control, through participation in financing and operating policy decisions, and in which the company normally owns between 20% and 50% of the voting equity.

Investments in associates are carried at cost, including goodwill, as adjusted for the company's share of post-acquisition changes in associates retained earnings and other movements in reserve. The carrying value of investment in associate is reviewed on a regular basis and if any impairment in value has occurred, the value is written down in the period in which these circumstances are identified. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased. The results of associates are equity accounted for based on their most recent audited financial statements.

Losses of an associate are recorded in the financial statements until the investment in such associate is written down to nil value. Thereafter losses are only accounted for to the extent that company is committed to provide the financial support to such associate.

Profit and losses resulting from transactions with an associate are eliminated to the extent of the company's interest in the relevant associate.

4 Significant accounting policies (continued)

Investment in property funds

Investment in property funds are initially recorded at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Investment in 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, any unquoted funds are stated at cost. All related realised gains or losses on disposal are included in the statement of income; unrealised gains or losses are taken to the fair value reserve in the statement of changes in 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.

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.

4 Significant accounting policies (continued)

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.

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.

4 Significant accounting policies (continued)

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.

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.

4 Significant accounting policies (continued)

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 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.

5 Critical accounting judgments, estimates and assumptions

The preparation of the financial statements in accordance with AAOIFI standards 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 area requiring the use of the management estimates and assumptions relate to

- fair valuation of investment properties;
- economic useful lives of property and equipment;
- 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.

Useful economic lives of property and equipment

The company's property and equipment are depreciated on a straight-line basis over their economic useful lives.

Useful economic lives of property and equipment are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

5 Critical accounting judgements, estimates and assumptions (continued)

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.

6 Cash and bank balances

	31 December <u>2009</u>	31 December <u>2008</u>
Cash on hand	500	930
Current account balances with banks	<u>2,819,766</u>	<u>938,101</u>
	<u>2,820,266</u>	<u>939,031</u>

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

7 Investment in an associate

	31 December <u>2009</u>	31 December <u>2008</u>
Investment		
Opening balance	15,250	112,500
Share of net loss for the year	<u>(641)</u>	<u>(97,250)</u>
Closing balance	<u>14,609</u>	<u>15,250</u>
Advance to an associate		
Opening balance	382,500	157,500
Paid during the year	<u>-</u>	<u>225,000</u>
Closing balance	<u>382,500</u>	<u>382,500</u>
Total	<u>397,109</u>	<u>397,750</u>

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

It is management's intention to utilize the advance to increase the share capital of the associate during 2010.

Reef Real Estate Finance Co. BSC (c)
Notes to the financial statements for the year ended 31 December 2009
(Expressed in Bahraini Dinars)

8 Investment in property funds

	31 December <u>2009</u>	31 December <u>2008</u>
Opening balance	-	2,000,000
Realised gains on sales transferred to the statement of income	-	644,500
Disposals during the year	<u>-</u>	<u>(2,644,500)</u>
Closing balance	<u>-</u>	<u>-</u>

The Company, in accordance with a commitment letter dated 28 February 2006, agreed to participate in the Special Purpose Vehicle (“SPV”) of Bahrain Investment Wharf BSC(c) (BIW), as one of BIW’s strategic investors. During the 2008, the investment in the SPV has been disposed-off.

9 Mudaraba investments

	31 December <u>2009</u>	31 December <u>2008</u>
Calyon Bank	-	1,500,000
Khaleeji Commercial Bank	<u>75,400</u>	<u>75,400</u>
	<u>75,400</u>	<u>1,575,400</u>

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

10 Musharaka financing

	31 December <u>2009</u>	31 December <u>2008</u>
Opening balance	558,080	3,468,865
Additions during the year	-	38,207
Repayments during the year	<u>(169,500)</u>	<u>(2,948,992)</u>
	388,580	558,080
Less: Provision for impairment	<u>5,071</u>	<u>5,071</u>
Closing balance	<u>383,509</u>	<u>553,009</u>

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11 Ijarah Muntahia Bittamleek

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost			
At 31 December 2007 (restated)	11,805,753	19,046,129	30,851,882
Additions during the year	9,889,119	13,831,411	23,720,530
Repayments/ disposals during the year	<u>(8,027,335)</u>	<u>(6,282,766)</u>	<u>(14,310,101)</u>
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	<u>11,230,228</u>	<u>23,860,713</u>	<u>35,090,941</u>
Depreciation			
At 31 December 2007 (restated)	-	(1,235,034)	(1,235,034)
Charges for the year	-	(1,861,156)	(1,861,156)
Disposal during the year	<u>-</u>	<u>865,368</u>	<u>865,368</u>
At 31 December 2008	-	(2,230,822)	(2,230,822)
Charged for the year	-	(1,917,595)	(1,917,595)
Disposal during the year	<u>-</u>	<u>556,507</u>	<u>556,507</u>
At 31 December 2009	<u>-</u>	<u>(3,591,910)</u>	<u>(3,591,910)</u>
Impairment provision			
At 31 December 2007		(41,929)	(41,929)
Provided during the year	<u>-</u>	<u>(113,152)</u>	<u>(113,152)</u>
At 31 December 2008	-	(155,081)	(155,081)
Provided during the year	<u>-</u>	<u>(78,659)</u>	<u>(78,659)</u>
At 31 December 2009	<u>-</u>	<u>(233,740)</u>	<u>(233,740)</u>
Net book value			
At 31 December 2008	<u>13,667,537</u>	<u>24,208,871</u>	<u>37,876,408</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 concludes 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 31 December 2009 have lease terms of up to 25 years.

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12 Investment properties

	31 December <u>2009</u>	31 December <u>2008</u>
Opening balance	3,750,980	3,750,980
Disposals during the year	<u>(253,237)</u>	<u>-</u>
Closing balance	<u>3,497,743</u>	<u>3,750,980</u>

In December 2009, the Company obtained a valuation of its investment properties from an independent real estate valuer, which reflected the total value of the properties at BD3,920,650, resulting in an unrealised fair value gain amounting to BD422,907 (2008: BD262,820). 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 changes in equity.

13 Receivables and prepayments

	31 December <u>2009</u>	31 December <u>2008</u> (Restated)
Other receivables	284,710	180,799
Ijarah Muntahia Bittamleek rental receivables	168,805	146,803
Accrued profit on Mudaraba investments	<u>519</u>	<u>2,210</u>
	<u>454,034</u>	<u>329,812</u>

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14 Property and equipment

	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Office equipment</u>	<u>Computer hardware and software</u>	<u>Motor vehicles</u>	<u>Total</u>
<u>Cost</u>						
At 31 December 2007	148,867	43,503	44,373	97,865	36,880	371,488
Additions during the year	<u>3,562</u>	<u>2,961</u>	<u>1,907</u>	<u>27,850</u>	-	<u>36,280</u>
At 31 December 2008	152,429	46,464	46,280	125,715	36,880	407,768
Additions during the year	-	726	-	-	-	726
Disposal during the year	-	-	-	<u>(1,780)</u>	-	<u>(1,780)</u>
At 31 December 2009	<u>152,429</u>	<u>47,190</u>	<u>46,280</u>	<u>123,935</u>	<u>36,880</u>	<u>406,714</u>
<u>Accumulated depreciation</u>						
At 31 December 2007	22,012	7,519	8,106	26,686	8,568	72,891
Charge for the year	<u>30,130</u>	<u>9,037</u>	<u>10,021</u>	<u>32,039</u>	<u>12,293</u>	<u>93,520</u>
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
Disposal during the year	-	-	-	<u>(1,087)</u>	-	<u>(1,087)</u>
At 31 December 2009	<u>82,628</u>	<u>26,151</u>	<u>28,132</u>	<u>90,438</u>	<u>32,922</u>	<u>260,271</u>
<u>Net book value</u>						
At 31 December 2008	<u>100,287</u>	<u>29,908</u>	<u>28,153</u>	<u>66,990</u>	<u>16,019</u>	<u>241,357</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 (2008: BD8,500) per month.

15 Islamic financing

	<u>31 December 2009</u>	<u>31 December 2008</u>
Future Bank	3,017,540	-
Bahrain Islamic Bank	2,079,167	2,000,000
Kuwait Finance House	2,011,290	2,510,151
Shamil Bank of Bahrain	1,848,400	2,047,639
Emirates Islamic Bank	1,133,641	3,750,000
Al Baraka Islamic Bank	283,529	1,151,183
Calyon Bank	<u>102,871</u>	<u>5,317,016</u>
	<u>10,476,438</u>	<u>16,775,989</u>

The financing from Future Bank, Al Baraka Islamic Bank and Calyon Bank are 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 8.9% (2008: 7.4%) per annum.

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16 Other liabilities

	31 December <u>2009</u>	31 December <u>2008</u>
Musharaka financing and Ijarah Muntahia Bittamleek payables	708,156	1,985,978
Other payables	606,918	721,626
Accrued expenses	<u>43,315</u>	<u>177,429</u>
	<u>1,358,389</u>	<u>2,885,033</u>

17 Share capital

	31 December <u>2009</u>	31 December <u>2008</u>
Authorised		
400,000,000 (2008: 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 (2008: 214,000,000) ordinary shares of 100 Fils each	<u>22,898,000</u>	<u>21,400,000</u>

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 25 June 2009 approved the issue of 14,980,000 as bonus shares to the shareholders. Accordingly, the issued and fully paid-up share capital has increased from 214,000,000 to 228,980,000 shares.

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 2009 and 2008 are as follows:

	<u>31 December 2009</u>		
	<u>Nationality</u>	<u>Number of shares</u>	<u>Percentage of share holding 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>

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17 Share capital (continued)

	<u>Nationality</u>	<u>31 December 2008</u>	
		<u>Number of shares</u>	<u>Percentage of share holding interest</u>
National International Holding KSC(c)	Kuwaiti	42,800,000	20%
Global Investment House KSC(c)	Kuwaiti	36,380,000	17%
Inovent 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	<u>11,770,000</u>	<u>5.5%</u>
		<u>155,150,000</u>	<u>72.50%</u>

18 Statutory reserve

	<u>31 December 2009</u>	<u>31 December 2008</u>
Opening balance	615,209	428,598
Transfer from net profits	<u>132,128</u>	<u>186,611</u>
Closing balance	<u>747,337</u>	<u>615,209</u>

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.

19 Investment property fair value reserve

	<u>31 December 2009</u>	<u>31 December 2008</u>
Opening balance	1,444,730	1,444,730
Realized profit transferred to statement of income	<u>(97,537)</u>	<u>-</u>
Closing balance	<u>1,347,193</u>	<u>1,444,730</u>

20 Finance costs

	<u>Year ended 31 December 2009</u>	<u>Year ended 31 December 2008</u>
Wakalah financing costs	212,119	304,308
Murabaha financing costs	<u>854,344</u>	<u>825,831</u>
	<u>1,066,463</u>	<u>1,130,139</u>

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21 General and administrative expenses

	Year ended 31 December <u>2009</u>	Year ended 31 December <u>2008</u>
Premises expenses	122,728	124,467
Business development	50,559	101,753
Professional fees	96,647	77,050
Communication expenses	37,912	29,897
System expenses	34,645	30,865
Exchange loss	31,574	14,117
Other general expenses	48,183	91,413
Directors' attendance fees	<u>3,693</u>	<u>6,023</u>
	<u>425,941</u>	<u>475,585</u>

22 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 <u>2009</u>	31 December <u>2008</u>
Net profit attributable to the shareholders	<u>BD1,321,280</u>	<u>BD1,524,985</u>
Weighted average number of ordinary shares	<u>228,980,000</u>	<u>228,980,000</u>
Basic and diluted earnings per share	<u>5.8 Fils</u>	<u>6.7 Fils</u>

The total number of ordinary shares as at 31 December 2008 has been calculating as if the bonus issue occurred at the year end.

23 Directors' remuneration and charity contributions

The shareholders have approved at the Annual General Meeting held on 25 June 2009, of BD6,500 (2008: BD20,000) for charity contributions and BD15,000 (2008: BD40,000) for directors' remuneration.

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24 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 significant transactions with related parties included in Ijarah Muntahia Bittamleek is as follows:

	31 December <u>2009</u>	31 December <u>2008</u>
Shareholders, directors and immediate family members	<u>54,753</u>	<u>76,944</u>

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

	31 December <u>2009</u>	31 December <u>2008</u>
<i>Amounts due from related parties</i>		
Shareholders, directors and immediate family members	<u>1,117,560</u>	<u>1,442,725</u>

25 Maturity profile

Maturity profile of assets and liabilities is as follows:

	<u>At 31 December 2009</u>				
	<u>Carrying amount</u>	<u>Up to 6 months</u>	<u>6-12 months</u>	<u>1-5 years</u>	<u>5 years & above</u>
Assets					
Cash and cash equivalents	2,820,266	2,820,266	-	-	-
Investment in an associate	397,109	-	-	397,109	-
Mudaraba investments	75,400	75,400	-	-	-
Musharaka financing	383,509	-	-	34,762	348,747
Ijarah Muntahia Bittamleek	31,265,291	-	12,623	8,914,727	22,337,940
Investment properties	3,497,743	-	-	3,497,743	-
Receivables and prepayments	454,034	188,135	88,562	177,337	-
Property and equipment	<u>146,443</u>	<u>-</u>	<u>-</u>	<u>146,443</u>	<u>-</u>
Total assets	<u>39,039,795</u>	<u>3,083,801</u>	<u>101,185</u>	<u>13,168,123</u>	<u>22,686,687</u>
Equity and liabilities					
Share capital	22,898,000	-	-	-	22,898,000
Statutory reserve	747,337	-	-	-	747,337
Investment property fair value					
Reserve	1,347,193	-	-	1,347,193	-
Retained earnings	2,212,438	-	-	-	2,212,438
Islamic financing	10,476,438	386,400	7,072,498	3,017,540	-
Other liabilities	<u>1,358,389</u>	<u>795,159</u>	<u>140,179</u>	<u>423,051</u>	<u>-</u>
Total equity and liabilities	<u>39,039,795</u>	<u>1,181,559</u>	<u>7,212,677</u>	<u>4,787,784</u>	<u>25,857,775</u>

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25 Maturity profile (continued)

	At 31 December 2008				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years & above
Assets					
Cash and cash equivalents	939,031	939,031	-	-	-
Investment in an associate	397,750	-	397,750	-	-
Mudaraba investments	1,575,400	-	1,500,000	75,400	-
Musharaka financing	553,009	-	-	-	553,009
Ijarah Muntahia Bittamleek	37,876,408	-	-	-	37,876,408
Investment properties	3,750,980	-	3,750,980	-	-
Receivables and prepayments	329,812	241,743	88,069	-	-
Property and equipment	241,357	-	-	241,357	-
Total assets	<u>45,663,747</u>	<u>1,180,774</u>	<u>5,736,799</u>	<u>316,757</u>	<u>38,429,417</u>
Equity and liabilities					
Equity	26,002,725	-	-	-	26,002,725
Islamic financing	16,775,989	4,901,183	11,874,806	-	-
Other liabilities	2,885,033	167,806	2,694,040	23,187	-
Total equity and liabilities	<u>45,663,747</u>	<u>5,068,989</u>	<u>14,568,846</u>	<u>23,187</u>	<u>26,002,725</u>

The distribution of assets and liabilities by geographic and industry sectors is as follows:

	At 31 December 2009		At 31 December 2008	
	Assets	Liabilities and equity	Assets	Liabilities and equity
Geographic sector				
Gulf Co-operation Council (GCC)	<u>39,039,795</u>	<u>39,039,795</u>	<u>45,663,747</u>	<u>45,663,747</u>
Industry sector				
Bank and financial institutions	2,997,608	25,818,098	2,658,648	31,113,989
Individuals	31,851,406	1,710,600	38,590,403	3,686,138
Real estate	4,007,360	2,152,458	4,149,030	1,555,974
Others	183,421	9,358,639	265,666	9,307,646
	<u>39,039,795</u>	<u>39,039,795</u>	<u>45,663,747</u>	<u>45,663,747</u>

26 Compliance with Shari'a rules and principles

The Company has appointed a Shari'a Advisor in accordance with the terms of its Articles of Association. The Shari'a 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.

27 Social responsibility

The Company discharges its social responsibilities through donations to charitable causes and organizations (Note 23).

28 Concentration of assets and liabilities

Industry sector

The Company's assets acquired for leasing have exposures to the real estate sector. Bank balances and Mudaraba 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.

29 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.

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.

29 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.

30 Zakah

The shareholders of the Company will be liable for the payment of zakah.

31 Commitments

The company has no capital commitment at 31 December 2009.

32 Contingent liabilities

The company is involved in two legal cases and it is not possible to predict the eventual outcome of such legal actions. The Company have not made any provision for any of these claims.

33 Subsequent events

There were no significant events subsequent to 31 December 2009 and occurring before the date of signing of the financial statements that would have a significant impact on these financial statements.

34 Comparative balances

Certain comparative balances have been reclassified, wherever necessary to conform with the presentation adopted at 31 December 2009.