

Reef Real Estate Finance Co.  
B.S.C. (c)

Financial statements for the  
year ended 31 December 2010

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Financial statements for the year ended 31 December 2010

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Reef Real Estate Finance Co. B.S.C. (c)  
Administration and contact details as at 31 December 2010

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|                              |   |                               |
|------------------------------|---|-------------------------------|
| 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<br>Mr Saud Kanoo<br>Mr Faisal Al Matrook<br>Dr Khalid Abdulla<br>Mr Nasser Abdulhadi Al Gharibah<br>Mr Samer Abbouchi<br>Mr Mohammed Al Dosari     | (Chairman)<br>(Vice-Chairman) |
| Chief Executive Officer      | Mr Mahmood Al Koofi   |                               |
| Executive Committee          | Mr Faisal Al Matrook<br>Mr Saud Kanoo<br>Mr Nasser Abdulhadi Al Gharibah  | (Chairman)                    |
| Audit Committee              | Dr Khalid Abdulla<br>Mr Samer Abbouchi<br>Mr Mohammed Al Dosari   | (Chairman)                    |
| Sharia'a Supervisory Advisor | Shaikh Osama Bahar  |                               |
| Registered office            | Building 483, Road 1010<br>Block 410<br>PO Box 18599<br>Manama<br>Kingdom of Bahrain  |                               |
| Bankers                      | Ithmaar Bank<br>Kuwait Finance House<br>Al Baraka Islamic Bank<br>Future Bank<br>Bahrain Islamic Bank<br>Khaleeji Commercial Bank<br>Emirates Islamic Bank<br>Calyon Bank |                               |
| Auditors                     | BDO<br>10th & 11th Floors, GBCORP Tower<br>Bahrain Financial Harbour<br>PO Box 787<br>Manama<br>Kingdom of Bahrain  |                               |

### Chairman's review

Despite the positive results achieved by the Company at the end of 2010, we feel that these results remain less ambitious than those results for which the Company was established at the beginning of 2006.

Such ambitions then counted on the continued growth in the real estate market in the region and in Bahrain in particular, especially in the freehold sector, which was hoped to attract the largest number of customers who were, of course, buying apartments for both investment and housing purposes.

The decline in the level of net profits is directly related to the general economic situation starting from the last quarter of the year 2008 when the global financial crisis started to affect the overall economies of the Arab world and the impact of this crisis that subsequently led to severe difficulties in securing liquidity that the Company needed for the support of its operations in the field of real estate financing to individuals, as well as to the continued decline in the real estate market which has led to considerable disruption in the supply and demand equation on the real estate market in the Kingdom of Bahrain and finally, the vanishing demand for residential apartments forced the Bahraini banks to announce competitive pricing offers in order to attract customers by introducing new mortgage loan programs with very low interest rates that reached below the level of 6% in some cases, benefiting, from the availability of excess liquidity.

Given the current market conditions we believe, that the net profit made by the Company during the year 2010 is realistic and reasonable when compared with those similar financing companies, which could not achieve any profit in this year, not only because of the impact of the re-evaluation of their assets, but also because of the intense competition by the retail banks that have benefited greatly from the availability of cheap liquidity and their ability to employ such liquidity in real estate finance market.

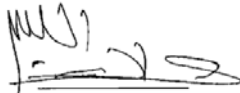
While our hopes continue for an economic renaissance in the Arabian Gulf countries in general and the Kingdom of Bahrain in particular, these hopes are certainly linked to the economic reality through which the Company can operate, and to keep up with the demands of the new economic reality where the Company is expected to play a complementary role to support the citizens and residents in the Kingdom and where the Company will provide an appropriate financing for the acquisition of real estate units that with the support of the new government's economic initiatives will contribute to the achievement of this new economic reality, God willing.

*(continued....)*

We are very optimistic of the future of our Gulf economies and we pray for God support to help us serving our countries in the manner which pleases God and pleases our distinguished shareholders who have spared no effort to support the Company since its establishment in 2005.

It is also worthy to note that the Board of Directors and through the exercise of its responsibility toward the Company and its continued support for the executive management, started to review the current business model and study the feasible economic possibilities as well as developing an alternative strategies for the future and we hope that the new proposed directions envisaged by the Board will be presented to the shareholders during their annual meeting, God willing.

Finally, on behalf of myself and on behalf of my brothers and my colleagues in the Board of Directors I would like to express our thanks and appreciation to the executive management team and all employees of the Company and hope that the God Almighty to guide them and bless them with success in all steps they take. Our thanks also go to all the official bodies in the Kingdom of Bahrain for their support to the Company, and in particular, we thank the Central Bank of Bahrain and the Ministry of Commerce and Industry and the Real Estate Registration Bureau who were and are still providing all the support to the Company.



Ali Ahmed Al Baghli  
Chairman

Reef Real Estate Finance Company B.S.C. (c)  
Shari'a supervisory advisory report

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**Shari'ah Supervisory Advisor Report on Reef Real Estate Finance Co. BSC (c)**  
**For the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010**

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 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010.

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:

1. The Company's contracts, transactions and operations for the year ended 31<sup>st</sup> December 2010 are in compliance with the provisions and principles of Islamic Shari'ah.
2. 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.
3. 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 Osama Mohammed Bahar  
Shari'ah Supervisory Advisory



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Kingdom of Bahrain

**Independent auditor's 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 2010, 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 are responsible for the preparation and fair presentation of these financial statements in accordance with Islamic Shari'a rules and principles. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**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 controls 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 consolidated 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 2010, 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 statement is consistent with the books of account of the Company.

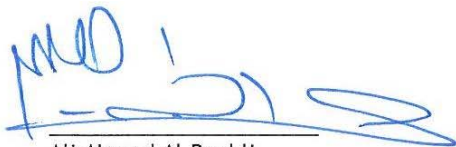
In addition, we report that nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2001 or the Central Bank of Bahrain and Financial Institutions Law 2006, or the terms of 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 2010.

Manama, Kingdom of Bahrain  
1 March 2011

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of financial position at 31 December 2010  
(Expressed in Bahraini Dinars)

|  | <u>Notes</u> | <u>31 December<br/>2010</u> | <u>31 December<br/>2009</u> |
|--|--------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                          |              |                             |                             |
| Cash and bank balances                 | 5            | 1,234,909                   | 2,820,266                   |
| Investments:                           |              |                             |                             |
| Investment in an associate             | 6            | 513,090                     | 397,109                     |
| Mudaraba investments                   | 7            | 5,106,387                   | 75,400                      |
| Musharaka financing                    | 8            | 231,097                     | 383,509                     |
| Ijarah Muntahia Bittamleek             | 9            | 25,271,419                  | 31,265,291                  |
| Investment properties                  | 10           | 3,076,170                   | 3,497,743                   |
| Receivables and prepayments            | 11           | 740,448                     | 454,034                     |
| Property and equipment                 | 12           | <u>82,774</u>               | <u>146,443</u>              |
| <b>Total assets</b>                    |              | <u><b>36,256,294</b></u>    | <u><b>39,039,795</b></u>    |
| <b>LIABILITIES AND EQUITY</b>          |              |                             |                             |
| <b>Liabilities</b>                     |              |                             |                             |
| Islamic financing                      | 13           | 7,449,564                   | 10,476,438                  |
| Other liabilities                      | 14           | <u>994,761</u>              | <u>1,351,889</u>            |
|  |              | <u><b>8,444,325</b></u>     | <u><b>11,828,327</b></u>    |
| <b>Equity</b>                          |              |                             |                             |
| Share capital                          | 15           | 24,042,900                  | 22,898,000                  |
| Statutory reserve                      | 16(i)        | 823,304                     | 747,337                     |
| Investment property fair value reserve | 16(ii)       | 1,184,819                   | 1,347,193                   |
| Charity reserve                        |              | 9,710                       | 6,500                       |
| Retained earnings                      |              | <u>1,751,236</u>            | <u>2,212,438</u>            |
|  |              | <u><b>27,811,969</b></u>    | <u><b>27,211,468</b></u>    |
| <b>Total liabilities and equity</b>    |              | <u><b>36,256,294</b></u>    | <u><b>39,039,795</b></u>    |

These financial statements, set out on pages 7 to 26, were approved for issue by the Board of Directors on 1 March 2011 and signed on their behalf by:



Ali Ahmed Al Baghli  
Chairman



Mahmood Al Koofi  
Chief Executive Officer



Reef Real Estate Finance Co. B.S.C. (c)  
Statement of income for the year ended 31 December 2010  
(Expressed in Bahraini Dinars)

|   | Notes  | 2010             | 2009             |
|---|--------|------------------|------------------|
| <b>Income</b>   |        |                  |                  |
| Gross Ijarah revenue  |        | 4,652,264        | 5,048,570        |
| Less: Depreciation on Ijarah Muntahia Bittamleek  | 9      | <u>2,165,214</u> | <u>1,917,595</u> |
|   |        | 2,487,050        | 3,130,975        |
| Profit from Musharaka financing   |        | 38,597           | 38,992           |
| Profit from Mudaraba investments  |        | 157,542          | 11,349           |
| Fees income from Ijarah Muntahia Bittamleek and<br>Musharaka financing                            |        | 69,018           | 81,446           |
| Realised gains on sale of investment properties   |        | <u>127,174</u>   | <u>120,731</u>   |
|   |        | <u>2,879,381</u> | <u>3,383,493</u> |
| <b>Expenses</b>   |        |                  |                  |
| Staff costs   |        | 456,483          | 395,562          |
| Finance costs   | 17     | 767,430          | 1,066,463        |
| General and administrative expenses   |        | 397,996          | 425,941          |
| Depreciation of property and equipment  | 12     | 72,282           | 94,947           |
| Allowances and provisions   | 9 & 11 | 420,502          | 78,659           |
| Share of net loss from investment in an associate   | 6      | <u>23</u>        | <u>641</u>       |
|   |        | <u>2,114,716</u> | <u>2,062,213</u> |
| <b>Net profit for the year before Directors'<br/>remuneration and transfer to charity reserve</b> |        | 764,665          | 1,321,280        |
| Directors' remuneration   |        | -                | 15,000           |
| Contribution to charity reserve   | 19     | <u>5,000</u>     | <u>6,500</u>     |
| <b>Net profit for the year</b>  |        | <u>759,665</u>   | <u>1,299,780</u> |
| <b>Basic and diluted earnings per share</b>   | 18     | <u>3.2 Fils</u>  | <u>5.7 Fils</u>  |

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of comprehensive income for the year ended 31 December 2010  
(Expressed in Bahraini Dinars)

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|  | <u>2010</u>      | <u>2009</u>      |
|--|------------------|------------------|
| Net profit for the year  | 759,665          | 1,299,780        |
| Net movement in the fair value reserve on<br>the sale of investment properties | <u>(162,374)</u> | <u>(97,537)</u>  |
| Total comprehensive income for the year  | <u>597,291</u>   | <u>1,202,243</u> |

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of changes in shareholders' equity for the year ended 31 December 2010  
(Expressed in Bahraini Dinars)

|                                  | <u>Share<br/>capital</u> | <u>Statutory<br/>reserve</u> | <u>Investment<br/>property<br/>fair value<br/>reserve</u> | <u>Charity<br/>reserve</u> | <u>Retained<br/>earnings</u> | <u>Total</u>      |
|----------------------------------|--------------------------|------------------------------|---|----------------------------|------------------------------|-------------------|
| At 31 December 2008              | 21,400,000               | 615,209                      | 1,444,730   | 13,500                     | 2,542,786                    | 26,016,225        |
| Bonus shares issued              | 1,498,000                | -                            | -   | -                          | (1,498,000)                  | -                 |
| Charity reserve movement         | -                        | -                            | -   | (7,000)                    | -                            | (7,000)           |
| Total comprehensive income       | -                        | -                            | (97,537)  | -                          | 1,299,780                    | 1,202,243         |
| Transferred to statutory reserve | -                        | <u>132,128</u>               | -   | -                          | <u>(132,128)</u>             | -                 |
| 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 | -                        | <u>75,967</u>                | -   | -                          | <u>(75,967)</u>              | -                 |
| At 31 December 2010              | <u>24,042,900</u>        | <u>823,304</u>               | <u>1,184,819</u>  | <u>9,710</u>               | <u>1,751,236</u>             | <u>27,811,969</u> |

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of cash flows for the year ended 31 December 2010  
(Expressed in Bahraini Dinars)

|  | Notes | 2010               | 2009               |
|--|-------|--------------------|--------------------|
| <b>Operating activities</b>                      |       |                    |                    |
| Net profit for the year                          |       | 759,665            | 1,299,780          |
| Adjustments for:                                 |       |                    |                    |
| Depreciation on property and equipment           | 12    | 72,282             | 94,947             |
| Depreciation on Ijarah Muntahia Bittamleek       | 9     | 2,165,214          | 1,917,595          |
| Realised gains on sale of investment properties  |       | (127,174)          | (120,731)          |
| Loss on sale of properties and equipment         |       | -                  | 693                |
| Share of net loss from an associate              | 6     | 23                 | 641                |
| Transfer to charity                              | 19    | 5,000              | 6,500              |
| Finance costs                                    | 17    | 767,430            | 1,066,463          |
| Changes in operating assets and liabilities:     |       |                    |                    |
| Receivables and prepayments                      |       | (286,414)          | (124,222)          |
| Other liabilities                                |       | <u>(357,128)</u>   | <u>(1,519,644)</u> |
| Net cash provided by operating activities        |       | <u>2,998,898</u>   | <u>2,622,022</u>   |
| <b>Investing activities</b>                      |       |                    |                    |
| Investment in an associate                       | 6     | (116,004)          | -                  |
| Purchase of property and equipment               | 12    | (8,613)            | (726)              |
| Proceeds from sale of investment properties      |       | 386,373            | 276,431            |
| Net movement in Ijarah Muntahia Bittamleek       |       | 3,828,658          | 4,693,522          |
| Net movement in Musharaka financing              |       | <u>152,412</u>     | <u>169,500</u>     |
| Net cash provided by investing activities        |       | <u>4,242,826</u>   | <u>5,138,727</u>   |
| <b>Financing activities</b>                      |       |                    |                    |
| Net movement in Islamic financing                |       | (3,026,874)        | (6,299,551)        |
| Charity payment                                  |       | (1,790)            | (13,500)           |
| Finance costs paid                               | 17    | <u>(767,430)</u>   | <u>(1,066,463)</u> |
| Net cash used in financing activities            |       | <u>(3,796,094)</u> | <u>(7,379,514)</u> |
| <b>Net increase in cash and cash equivalents</b> |       | 3,445,630          | 381,235            |
| Cash and cash equivalents, beginning of the year |       | <u>2,895,666</u>   | <u>2,514,431</u>   |
| Cash and cash equivalents, end of the year       |       | <u>6,341,296</u>   | <u>2,895,666</u>   |
| Comprising:                                      |       |                    |                    |
| Cash and bank balances                           |       | 1,234,909          | 2,820,266          |
| Mudaraba investments                             |       | <u>5,106,387</u>   | <u>75,400</u>      |
|  |       | <u>6,341,296</u>   | <u>2,895,666</u>   |

## 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 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 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   |

3 Significant accounting policies (continued)

*Property and equipment*

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*

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.

3 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.

3 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.

*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.



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 IFRS 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.

4 Critical accounting judgments, 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.

5 Cash and bank balances

|                                     | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|-------------------------------------|----------------------------|----------------------------|
| Current account balances with banks | 1,234,409                  | 2,819,766                  |
| Cash on hand                        | <u>500</u>                 | <u>500</u>                 |
|                                     | <u>1,234,909</u>           | <u>2,820,266</u>           |

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

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6 Investment in an associate

|                                | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|--------------------------------|----------------------------|----------------------------|
| <b>Investment</b>              |                            |                            |
| Opening balance                | 14,609                     | 15,250                     |
| Share of net loss for the year | <u>(23)</u>                | <u>(641)</u>               |
| Closing balance                | <u>14,586</u>              | <u>14,609</u>              |
| <b>Advance to an associate</b> |                            |                            |
| Opening balance                | 382,500                    | 382,500                    |
| Paid during the year           | <u>116,004</u>             | <u>-</u>                   |
| Closing balance                | <u>498,504</u>             | <u>382,500</u>             |
| <b>Total</b>                   | <u>513,090</u>             | <u>397,109</u>             |

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 as at 31 December 2010.

The advance to the associates will purchase additional share capital to be issued during 2011. The Company's holding will remain at 45% of the issued share capital after this transaction is completed.

7 Mudaraba investments

|                          | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|--------------------------|----------------------------|----------------------------|
| Ithmaar Bank             | 5,033,023                  | -                          |
| Khaleeji Commercial Bank | <u>73,364</u>              | <u>75,400</u>              |
|                          | <u>5,106,387</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.

8 Musharaka financing

|                            | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|----------------------------|----------------------------|----------------------------|
| Opening balance            | 388,580                    | 558,080                    |
| Repayments during the year | <u>(152,412)</u>           | <u>(169,500)</u>           |
|                            | 236,168                    | 388,580                    |
| Provision for impairment   | <u>(5,071)</u>             | <u>(5,071)</u>             |
| Closing balance            | <u>231,097</u>             | <u>383,509</u>             |

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9 Ijarah Muntahia Bittamleek

|                                       | <u>Land</u>        | <u>Buildings</u>   | <u>Total</u>       |
|---------------------------------------|--------------------|--------------------|--------------------|
| <b>Cost</b>                           |                    |                    |                    |
| 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         |
| Additions during the year             | 35,200             | 725,700            | 760,900            |
| Repayments/ disposals during the year | <u>(2,496,197)</u> | <u>(2,344,079)</u> | <u>(4,840,276)</u> |
| At 31 December 2010                   | <u>8,769,231</u>   | <u>22,242,334</u>  | <u>31,011,565</u>  |
| <b>Depreciation</b>                   |                    |                    |                    |
| 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                   | -                  | (3,591,910)        | (3,591,910)        |
| Charged for the year                  | -                  | (2,165,214)        | (2,165,214)        |
| Disposal during the year              | <u>-</u>           | <u>352,059</u>     | <u>352,059</u>     |
| At 31 December 2010                   | <u>-</u>           | <u>(5,405,065)</u> | <u>(5,405,065)</u> |
| <b>Impairment provision</b>           |                    |                    |                    |
| At 31 December 2008                   | -                  | (155,081)          | (155,081)          |
| Increase in provision                 | <u>-</u>           | <u>(78,659)</u>    | <u>(78,659)</u>    |
| At 31 December 2009                   | -                  | (233,740)          | (233,740)          |
| Increase in provision                 | <u>-</u>           | <u>(101,341)</u>   | <u>(101,341)</u>   |
| At 31 December 2010                   | <u>-</u>           | <u>(335,081)</u>   | <u>(335,081)</u>   |
| <b>Net book value</b>                 |                    |                    |                    |
| At 31 December 2009                   | <u>11,230,228</u>  | <u>20,035,063</u>  | <u>31,265,291</u>  |
| At 31 December 2010                   | <u>8,769,231</u>   | <u>16,502,188</u>  | <u>25,271,419</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 Ijarah Muntahia Bittamleek contracts outstanding at 31 December 2010 have lease terms of up to 25 years.

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10 Investment properties

|                           | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|---------------------------|----------------------------|----------------------------|
| Opening balance           | 3,497,743                  | 3,750,980                  |
| Disposals during the year | <u>(421,573)</u>           | <u>(253,237)</u>           |
| Closing balance           | <u>3,076,170</u>           | <u>3,497,743</u>           |

In December 2010, 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 BD3,084,250, resulting in an unrealised fair value gain amounting to BD8,081 (2009: BD422,907).

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.

11 Receivables and prepayments

|  | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|--|----------------------------|----------------------------|
| Ijarah Muntahia Bittamleek rental receivables                        | 474,624                    | 168,805                    |
| Allowance for doubtful Ijarah Muntahia Bittamleek rental receivables | <u>(218,733)</u>           | -                          |
|  | 255,891                    | 168,805                    |
| Other receivables net of provision                                   | 459,770                    | 284,710                    |
| Accrued profit on Mudaraba investments                               | <u>24,787</u>              | <u>519</u>                 |
|  | <u>740,448</u>             | <u>454,034</u>             |

Other receivable includes an assets of BD100,428(2009:BDNIL) which is considered as not recoverable and has been fully provided.

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12 Property and equipment

|                                 | Leasehold<br>improvements | Furniture<br>and<br>fixtures | Office<br>equipment | Computer<br>hardware<br>and<br>software | Motor<br>vehicles | Total          |
|---------------------------------|---------------------------|------------------------------|---------------------|---|-------------------|----------------|
| <u>Cost</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        | -                         | -                            | -                   | (1,780)                                 | -                 | (1,780)        |
| At 31 December 2009             | 152,429                   | 47,190                       | 46,280              | 123,935                                 | 36,880            | 406,714        |
| Additions during the year       | <u>1,851</u>              | -                            | -                   | <u>6,762</u>                            | -                 | <u>8,613</u>   |
| At 31 December 2010             | <u>154,280</u>            | <u>47,190</u>                | <u>46,280</u>       | <u>130,697</u>                          | <u>36,880</u>     | <u>415,327</u> |
| <u>Accumulated depreciation</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        | -                         | -                            | -                   | (1,087)                                 | -                 | (1,087)        |
| At 31 December 2009             | 82,628                    | 26,151                       | 28,132              | 90,438                                  | 32,922            | 260,271        |
| Charge for the year             | <u>30,486</u>             | <u>9,428</u>                 | <u>8,802</u>        | <u>19,608</u>                           | <u>3,958</u>      | <u>72,282</u>  |
| At 31 December 2010             | <u>113,114</u>            | <u>35,579</u>                | <u>36,934</u>       | <u>110,046</u>                          | <u>36,880</u>     | <u>332,553</u> |
| <u>Net book value</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> |
| At 31 December 2010             | <u>41,166</u>             | <u>11,611</u>                | <u>9,346</u>        | <u>20,651</u>                           | -                 | <u>82,774</u>  |

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

13 Islamic financing

|                        | 31 December<br>2010 | 31 December<br>2009 |
|------------------------|---------------------|---------------------|
| Future Bank            | 2,012,083           | 3,017,540           |
| Kuwait Finance House   | 1,903,677           | 2,011,290           |
| Al Baraka Islamic Bank | 1,896,293           | 283,529             |
| Ithmaar bank           | 1,637,511           | 1,848,400           |
| Bahrain Islamic Bank   | -                   | 2,079,167           |
| Emirates Islamic Bank  | -                   | 1,133,641           |
| Calyon Bank            | -                   | 102,871             |
|                        | <u>7,449,564</u>    | <u>10,476,438</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 7.7% (2009: 8.9%) per annum.

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14 Other liabilities

|   | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|---|----------------------------|----------------------------|
| Musharaka financing and Ijarah Muntahia Bittamleek payables | 394,790                    | 708,156                    |
| Other payables  | 551,247                    | 600,418                    |
| Accrued expenses  | <u>48,724</u>              | <u>43,315</u>              |
|   | <u>994,761</u>             | <u>1,351,889</u>           |

15 Share capital

|   | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|---|----------------------------|----------------------------|
| <b>Authorised</b>   |                            |                            |
| 400,000,000 (2009: 400,000,000)<br>ordinary shares of 100 Fils each | <u>40,000,000</u>          | <u>40,000,000</u>          |
| <b>Issued and fully paid-up</b>                                     |                            |                            |
| 240,429,000 (2009: 228,980,000)<br>ordinary shares of 100 Fils each | <u>24,042,900</u>          | <u>22,898,000</u>          |

**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 2010 and 2009 are as follows:

|  | <u>31 December 2010</u>     |   |
|--|-----------------------------|---|
| <u>Nationality</u>                       | <u>Number<br/>of shares</u> | <u>Percentage of<br/>share holding<br/>interest</u> |
| 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 <u>13,223,595</u>   | <u>5.5%</u>   |
|  | <u>174,311,025</u>          | <u>72.50%</u>                                       |

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15 Share capital (continued)

|  | <u>Nationality</u> | <u>31 December 2009</u> |   |
|--|--------------------|-------------------------|---|
|  |                    | <u>Number of shares</u> | <u>Percentage of share holding interest</u> |
| National International Holding K.S.C.(c) | Kuwaiti            | 45,796,000              | 20%   |
| Global Investment House K.S.C.(c)        | Kuwaiti            | 38,926,600              | 17%   |
| Inovest B.S.C.                           | Bahraini           | 22,898,000              | 10%   |
| Ossis Property Developers B.S.C.(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>                               |

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 BD75,967 has been transferred to the statutory reserve (2009: BD132,128).

(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

|                          | <u>Year ended<br/>31 December<br/>2010</u> | <u>Year ended<br/>31 December<br/>2009</u> |
|--------------------------|--|--|
| Wakalah financing costs  | 22,568                                     | 212,119                                    |
| Murabaha financing costs | <u>744,862</u>                             | <u>854,344</u>                             |
|                          | <u>767,430</u>                             | <u>1,066,463</u>                           |



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<br><u>2010</u> | 31 December<br><u>2009</u> |
|---|----------------------------|----------------------------|
| Net profit attributable to the shareholders | <u>BD759,665</u>           | <u>BD1,299,780</u>         |
| Weighted average number of ordinary shares  | <u>240,429,000</u>         | <u>228,980,000</u>         |
| Basic and diluted earnings per share        | <u>3.2 Fils</u>            | <u>5.7 Fils</u>            |

19 Directors' remuneration and charity contributions

In accordance with resolutions passed at the Annual General Meeting held on 20 May 2010, Directors' remuneration amounting to BDNIL (2008: BD15,000) and Charity contribution amounting to BD5,000(2008:BD6,500) in respect of 2009 were approved by the shareholders. 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 significant transactions with related parties included in Ijarah Muntahia Bittamleek is as follows:*

|  | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|--|----------------------------|----------------------------|
| Shareholders, directors and immediate family members | <u>-</u>                   | <u>54,753</u>              |

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

|  | 31 December<br><u>2010</u> | 31 December<br><u>2009</u> |
|--|----------------------------|----------------------------|
| <i>Amounts due from related parties</i>              |                            |                            |
| Shareholders, directors and immediate family members | <u>927,071</u>             | <u>1,117,560</u>           |

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21 Maturity profile

Maturity profile of assets and liabilities is as follows:

|                                     | At 31 December 2010 |                   |                  |                  |                    |
|-------------------------------------|---------------------|-------------------|------------------|------------------|--------------------|
|                                     | Carrying<br>amount  | Up to<br>6 months | 6-12<br>months   | 1-5<br>years     | 5 years<br>& above |
| <b>Assets</b>                       |                     |                   |                  |                  |                    |
| Cash and cash equivalents           | 1,234,909           | 1,234,909         | -                | -                | -                  |
| Investment in an associate          | 513,090             | -                 | -                | 513,090          | -                  |
| Mudaraba investments                | 5,106,387           | 5,106,387         | -                | -                | -                  |
| Musharaka financing                 | 231,097             | 17,375            | 17,645           | -                | 196,077            |
| Ijarah Muntahia Bittamleek          | 25,271,419          | 6,054             | 22,494           | 387,006          | 24,855,865         |
| Investment properties               | 3,076,170           | -                 | -                | 3,076,170        | -                  |
| Receivables and prepayments         | 740,448             | 162,393           | 459,881          | 118,174          | -                  |
| Property and equipment              | <u>82,774</u>       | <u>596</u>        | <u>5,089</u>     | <u>77,089</u>    | <u>-</u>           |
| <b>Total assets</b>                 | <u>36,256,294</u>   | <u>6,527,714</u>  | <u>505,109</u>   | <u>4,171,529</u> | <u>25,051,942</u>  |
| <b>Equity and liabilities</b>       |                     |                   |                  |                  |                    |
| Share capital                       | 24,042,900          | -                 | -                | -                | 24,042,900         |
| Statutory reserve                   | 823,304             | -                 | -                | -                | 823,304            |
| Investment property fair value      |                     |                   |                  |                  |                    |
| Reserve                             | 1,184,819           | -                 | -                | 1,184,819        | -                  |
| Charity reserve                     | 9,710               | -                 | 9,710            | -                | -                  |
| Retained earnings                   | 1,751,236           | -                 | -                | -                | 1,751,236          |
| Islamic financing                   | 7,449,564           | 1,903,677         | 3,649,594        | 1,896,293        | -                  |
| Other liabilities                   | <u>994,761</u>      | <u>54,983</u>     | <u>387,280</u>   | <u>290,912</u>   | <u>261,586</u>     |
| <b>Total equity and liabilities</b> | <u>36,256,294</u>   | <u>1,958,660</u>  | <u>4,046,584</u> | <u>3,372,024</u> | <u>26,879,026</u>  |

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.

**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.

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

**Currency rate risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's foreign currency transactions are predominantly in GCC currencies which are effectively pegged to the 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 2010 and occurring before the date of signing of the financial statements that would have a significant impact on these financial statements.