

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

Condensed interim financial  
information for the quarter  
ended 31 March 2011  
(Unaudited)

Reef Real Estate Finance Co. B.S.C. (c)  
Financial statements for the quarter ended 31 March 2011

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Index	Page
1. Administration and contact details	2
2. Review report by the independent auditor	3
3. Condensed interim statement of financial position	4
4. Condensed interim statement of income	5
5. Condensed interim statement of comprehensive income	6
6. Condensed interim statement of changes in equity	7
7. Condensed interim statement of cash flows	8
8. Selected explanatory notes to the condensed interim financial information	9 - 14

Reef Real Estate Finance Co. B.S.C. (c)  
Administration and contact details as at 31 March 2011

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

## **Review report by the independent auditor to the Board of Directors of Reef Real Estate Finance B.S.C. (c)**

### ***Introduction***

We have reviewed the accompanying condensed interim statement of financial position of Reef Real Estate Finance B.S.C. (c) ("the Company") as at 31 March 2011, the condensed interim statement of income, the condensed interim statement of comprehensive income, the condensed interim statement of changes in equity, the condensed interim statement of cash flows for the quarter then ended, and selected explanatory notes. The Company's Board of Directors is responsible for the preparation and presentation of this condensed interim financial information in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Advisor of the Company. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

### ***Scope of review***

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

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information does not present fairly, in all material respects, the financial position of the Company as at 31 March 2011, and of its financial performance and its cash flows for the quarter then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Advisor of the Company.

Manama, Kingdom of Bahrain  
April 2011

Reef Real Estate Finance Co. B.S.C. (c)  
Condensed interim statement of financial position as at 31 March 2011  
(Unaudited)  
(Expressed in Bahraini Dinars)

	Notes	31 March 2011	31 December 2010
<b>ASSETS</b>			
Cash and bank balances		1,065,750	1,234,909
Investments:			
Investment in an associate	3	513,090	513,090
Mudaraba investments	4	7,166,959	5,106,387
Musharaka financing		222,454	231,097
Ijarah Muntahia Bittamleek	5	23,682,421	25,271,419
Investment properties		2,931,254	3,076,170
Receivables and prepayments	6	694,518	740,448
Property and equipment		<u>68,500</u>	<u>82,774</u>
<b>Total assets</b>		<u><b>36,344,946</b></u>	<u><b>36,256,294</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Islamic financing	7	7,491,465	7,449,564
Other liabilities		<u>979,137</u>	<u>994,761</u>
		<u><b>8,470,602</b></u>	<u><b>8,444,325</b></u>
<b>Equity</b>			
Share capital	8	24,042,900	24,042,900
Statutory reserve		823,304	823,304
Investment property fair value reserve		1,129,003	1,184,819
Charity reserve		9,894	9,710
Retained earnings		<u>1,869,243</u>	<u>1,751,236</u>
		<u><b>27,874,344</b></u>	<u><b>27,811,969</b></u>
<b>Total liabilities and equity</b>		<u><b>36,344,946</b></u>	<u><b>36,256,294</b></u>

The unaudited condensed interim financial information, set out on pages 4 to 14, were approved for issue by the Board of Directors on April 2011 and signed on their behalf by:

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Ali Ahmed Al Baghli  
Chairman

\_\_\_\_\_  
Mahmood Al Koofi  
Chief Executive Officer

Reef Real Estate Finance Co. B.S.C. (c)  
 Condensed interim statement of income for the quarter ended 31 March 2011  
 (Unaudited)  
 (Expressed in Bahraini Dinars)

	<u>Notes</u>	Quarter ended 31 March 2011	Quarter ended 31 March 2010
<b>Income</b>			
Gross Ijarah revenue		1,107,496	1,163,713
Less: Depreciation on Ijarah Muntahia Bittamleek	5	<u>619,159</u>	<u>474,374</u>
		488,337	689,339
Profit from Musharaka financing		5,192	8,040
Profit from Mudaraba investments		54,854	14,801
Fees income from Ijarah Muntahia Bittamleek and Musharaka financing		12,576	16,534
Realised gains on sale of investment properties		<u>54,391</u>	<u>-</u>
		<u>615,350</u>	<u>728,714</u>
<b>Expenses</b>			
Staff costs		117,644	115,899
Finance costs	9	165,930	237,287
General and administrative expenses		81,564	94,948
Depreciation of property and equipment		14,274	22,674
Allowances and provisions		<u>117,931</u>	<u>79,101</u>
		<u>497,343</u>	<u>549,909</u>
<b>Net profit for the period</b>		<u>118,007</u>	<u>178,805</u>
<b>Basic and diluted earnings per share</b>		<u>0.5fils</u>	<u>0.7fils</u>

Reef Real Estate Finance Co. B.S.C. (c)  
Condensed interim statement of comprehensive income for the quarter ended 31 March 2011  
(Expressed in Bahraini Dinars)

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	Quarter ended 31 March <u>2011</u>	Quarter ended 31 March <u>2010</u>
Net profit for the period	118,007	178,805
Net movement in the fair value reserve on the sale of investment properties	<u>(55,816)</u>	<u>-</u>
Total comprehensive income for the period	<u>62,191</u>	<u>178,805</u>

Reef Real Estate Finance Co. B.S.C. (c)  
 Condensed interim statement of changes in equity for the quarter ended 31 March 2011 (Unaudited)  
 (Expressed in Bahraini Dinars)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Investment property fair value reserve</u>	<u>Charity reserve</u>	<u>Retained earnings</u>	<u>Total</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	24,042,900	823,304	1,184,819	9,710	1,751,236	27,811,969
Charity reserve movement	-	-	-	184	-	184
Total comprehensive income	-	-	<u>(55,816)</u>	-	<u>118,007</u>	<u>62,191</u>
At 31 March 2011	<u>24,042,900</u>	<u>823,304</u>	<u>1,129,003</u>	<u>9,894</u>	<u>1,869,243</u>	<u>27,874,344</u>



Reef Real Estate Finance Co. B.S.C. (c)  
Condensed interim statement of cash flows for the quarter ended 31 March 2011  
(Unaudited)  
(Expressed in Bahraini Dinars)

	Notes	Quarter ended 31 March <u>2010</u>	Quarter ended 31 March <u>2010</u>
<b>Operating activities</b>			
Net profit for the period		118,007	178,805
Adjustments for:			
Depreciation on property and equipment		14,274	22,674
Depreciation on Ijarah Muntahia Bittamleek	5	619,159	474,374
Profit on sale of Investment properties		(54,391)	-
Finance costs	9	165,930	237,287
Changes in operating assets and liabilities:			
Receivables and prepayments		45,930	(16,141)
Other liabilities		<u>(15,624)</u>	<u>(203,919)</u>
Net cash provided by operating activities		<u>893,285</u>	<u>693,080</u>
<b>Investing activities</b>			
Investments in an associate		-	(116,004)
Net movement in Musharaka financing		8,643	7,908
Net movement in Ijarah Muntahia Bittamleek		969,839	1,130,487
Proceeds from sale of investment properties		143,491	-
Purchase of property and equipment		<u>-</u>	<u>(689)</u>
Net cash provided by investing activities		<u>1,121,973</u>	<u>1,021,702</u>
<b>Financing activities</b>			
Islamic financing repaid, net		41,901	(1,774,302)
Charity reserve movement		184	-
Finance costs paid	9	<u>(165,930)</u>	<u>(237,287)</u>
Net cash used in financing activities		<u>(124,845)</u>	<u>(2,011,589)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,891,413	(296,807)
Cash and cash equivalents, beginning of the period		<u>6,341,296</u>	<u>2,895,666</u>
Cash and cash equivalents, end of the period		<u>8,232,709</u>	<u>2,598,859</u>
Comprising:			
Cash and bank balances		1,065,750	766,148
Mudaraba investments		<u>7,166,959</u>	<u>1,832,711</u>
		<u>8,232,709</u>	<u>2,598,859</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

The condensed interim financial information 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").

The condensed interim financial information has been presented in accordance with International Accounting Standard 34 - "Interim Financial Reporting". The condensed interim financial information should therefore be read in conjunction with the annual audited financial statements of the Company for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards.

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.

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

Selected explanatory notes to the condensed interim financial information for the quarter ended

31 March 2011 (Unaudited)

(Expressed in Bahraini Dinars)

**3 Investment in an associate**

	31 March <u>2011</u>	31 December <u>2010</u>
<b>Investment</b>		
Opening balance	14,586	14,609
Share of net loss for the period/year	<u>-</u>	<u>(23)</u>
Closing balance	<u>14,586</u>	<u>14,586</u>
<b>Advance to an associate</b>		
Opening balance	498,504	382,500
Paid during the period/year	<u>-</u>	<u>116,004</u>
Closing balance	<u>498,504</u>	<u>498,504</u>
<b>Total</b>	<u>513,090</u>	<u>513,090</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 be used to 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.

**4 Mudaraba investments**

	31 March <u>2011</u>	31 December <u>2010</u>
Ithmaar Bank	7,093,595	5,033,023
Khaleeji Commercial Bank	<u>73,364</u>	<u>73,364</u>
	<u>7,166,959</u>	<u>5,106,387</u>

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

Reef Real Estate Finance Co. B.S.C. (c)  
 Selected explanatory notes to the condensed interim financial information for the quarter ended  
 31 March 2011 (Unaudited)  
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5 Ijarah Muntahia Bittamleek

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<b>Cost</b>			
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	8,769,231	22,242,334	31,011,565
Additions during the period	126,781	155,000	281,781
Repayments/ disposals during the period	<u>(555,031)</u>	<u>(815,148)</u>	<u>(1,370,179)</u>
At 31 March 2011	<u>8,340,981</u>	<u>21,582,186</u>	<u>29,923,167</u>
<b>Depreciation</b>			
At 31 December 2009	-	(3,591,910)	(3,591,910)
Charge 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	-	(5,405,065)	(5,405,065)
Charge for the period	-	619,159	619,159
Disposal during the period	<u>-</u>	<u>(148,559)</u>	<u>(148,559)</u>
At 31 March 2011	<u>-</u>	<u>5,875,665</u>	<u>5,875,665</u>
<b>Impairment provision</b>			
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	-	(335,081)	(335,081)
Increase in provision	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
At 31 March 2011	<u>-</u>	<u>(365,081)</u>	<u>(365,081)</u>
<b>Net book value</b>			
At 31 December 2010	<u>8,769,231</u>	<u>16,502,188</u>	<u>25,271,419</u>
At 31 March 2011	<u>8,340,981</u>	<u>15,341,440</u>	<u>23,682,421</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 March 2011 have lease terms of up to 25 years.

Reef Real Estate Finance Co. B.S.C. (c)  
 Selected explanatory notes to the condensed interim financial information for the quarter ended  
 31 March 2011 (Unaudited)  
 (Expressed in Bahraini Dinars)

6 Receivables and prepayments

	<u>31 March 2011</u>	<u>31 December 2010</u>
Ijarah Muntahia Bittamleek rental receivables	534,409	474,624
Allowance for doubtful Ijarah Muntahia Bittamleek rental receivables	<u>(306,664)</u>	<u>(218,733)</u>
Other receivables net of provision	227,745	255,891
Accrued profit on Mudaraba investments	<u>447,834</u>	<u>459,770</u>
	<u>18,939</u>	<u>24,787</u>
	<u>694,518</u>	<u>740,448</u>

Other receivable includes an assets of BD100,428 (2010:BD100,428) which is considered as not recoverable and has been fully provided.

7 Islamic financing

	<u>31 March 2011</u>	<u>31 December 2010</u>
Future Bank	2,011,694	2,012,083
Kuwait Finance House	1,903,677	1,903,677
Al Baraka Islamic Bank	1,906,583	1,896,293
Ithmaar bank	<u>1,669,511</u>	<u>1,637,511</u>
	<u>7,491,465</u>	<u>7,449,564</u>

The financing from Future Bank and Al Baraka Islamic 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% (2010: 7.7%) per annum.

8 Share capital

	<u>31 March 2011</u>	<u>31 December 2010</u>
<b>Authorised</b>		
400,000,000 (2010: 400,000,000) 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 (2010: 240,429,000) ordinary shares of 100 Fils each	<u>24,042,900</u>	<u>24,042,900</u>

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

Reef Real Estate Finance Co. B.S.C. (c)  
 Selected explanatory notes to the condensed interim financial information for the quarter ended  
 31 March 2011 (Unaudited)  
 (Expressed in Bahraini Dinars)

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9 Finance costs

	Quarter ended 31 March <u>2011</u>	Quarter ended 31 March <u>2010</u>
Wakalah financing costs	-	18,294
Murabaha financing costs	<u>165,930</u>	<u>218,993</u>
	<u>165,930</u>	<u>237,287</u>

10 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.

	Quarter ended 31 March <u>2011</u>	Quarter ended 31 March <u>2010</u>
Net profit attributable to the shareholders	<u>BD118,007</u>	<u>BD178,805</u>
Weighted average number of ordinary shares	<u>240,429,000</u>	<u>240,429,000</u>
Basic and diluted earnings per share	<u>0.5fils</u>	<u>0.7fils</u>

11 Matters proposed by the Boards of Directors

The Board of Directors of the Company has proposed Directors' remuneration of BD35,000 and charity contributions of BD3,300 for the year ended 31 December 2010. The above proposals are subject to approval by the shareholders in the Annual General Meeting, and accordingly have not been accounted for in this financial information.

12 Related party transactions

Related parties consist of the Shareholders and Directors and their close family members, and businesses under their control. The Company's transactions with related parties are authorised by the management.

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

	31 March <u>2011</u>	31 December <u>2010</u>
Amounts due from related parties	<u>1,345,477</u>	<u>1,584,735</u>

**13 Interim financial information**

The interim net profit for the quarter ended 31 March 2011 may not represent a proportionate share of the annual net income due to the variability in the receipt of income.