

**SAKANA HOLISTIC  
HOUSING SOLUTIONS BSC (C)**

**FINANCIAL STATEMENTS  
31 DECEMBER 2008**

Commercial registration	:	58795 (registered with Central Bank of Bahrain as a Financing company).
Office	:	Suite 209, 2 <sup>nd</sup> Floor Bahrain car park building PO Box 21479, Manama, Kingdom of Bahrain
Directors	:	Abdul Hakim Khalil Al-Mutawa, <i>Chairman</i> Jamal Mohammed Hijres, <i>Vice Chairman</i> Reyadh Yousif Sater Tawfiq Al Bastaki Mazen Ahmed Al Umran
Chief Executive Officer	:	R Lakshmanan
Bankers	:	Shamil Bank of Bahrain BSC (c) BBK BSC
Auditors	:	KPMG

**FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

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<b>CONTENTS</b>	<b>Page</b>
Chairman's report	1-2
Report of the shari'a advisor	3
Independent auditor's report to the shareholders	4
<b>Financial statements</b>	
Balance sheet	5
Income statement	6
Statement of changes in shareholders' equity	7
Statement of cash flows	8
Notes	9-22
Supplementary information to the financial statements (unaudited)	23-25

**CHAIRMAN'S REPORT  
for the year ended 31 December 2008**

Bahraini dinars

Dear Shareholders

On behalf of the Board of Directors, it gives me great pleasure to present the results for the year ended 31 December 2008 of Sakana Holistic Housing Solutions BSC (c) (Sakana).

In line with the shareholders' agreement of having switch over of Chairman and Vice Chairman position every 2 years, I took over as the Chairman of the Board in March 2008 from my predecessor Mr. Jamal Hijres who is now the Vice Chairman.

This being the 2<sup>nd</sup> full year of commercial operations, we have been able to successfully establish our brand presence and grow our market share of mortgages. Along with this, we have also been able to continue playing a catalyst role in the real estate/mortgage market with our holistic approach. Our partnerships with developers continued to increase resulting in wider choice of "home" selection for customers in the major residential areas of the Kingdom of Bahrain.

In April 2008 our shareholders reconfirmed their commitment by increasing our paid up capital to BD 20 million from BD 12.5 million in 2007. This enabled Sakana to be in a much stronger position particularly to face challenges of the ongoing financial crises which started unfolding in a big way during the latter half of 2008. We continue to receive great support and co-operation from our shareholders. We have also been receiving excellent support from the local banking institutions in terms of our funding requirements and we have so far been able to leverage on clean basis at competitive pricing.

We continued to enhance our customer service by providing free of charge SMS notification during the mortgage process cycle and by providing periodic communication to customers on their account status.

Our net mortgage book as at 31 December 2008 grew to BD 32.36 million an increase of 128% over 2007 levels. Our customer base at end of the year was in excess of 300 with almost 85% of the portfolio consisting of resident customers.

As part of our holistic approach, we continued investment in land with a view to develop housing solutions and the value of development property as at end 2008 was BD 4.64 million. We also continued to expand our property consulting services by launching "Nasmah West" a freehold development in Juffair in association with a reputed developer.

As we all know during 2<sup>nd</sup> half of 2008 the market conditions was extremely tough due to the global financial crises resulting in shortage of liquidity and reduction in value across asset classes. Despite tough market conditions, we achieved net profit of approximately BD 584 K for 2008 - growth of 482% over year 2007 (BD 100K). As the profitability was more than sufficient to cover the accumulated losses of previous years, we have appropriated BD 52.5K to statutory reserve.

To face the challenges ahead, we prepared "strategy" with external professional assistance and the summary conclusion was to continue focus in growing the mortgage book. We do expect that market conditions will continue to remain tough in the next year impacting further shortage of liquidity, reduction in real estate prices, delay in completion of projects or cancellation, increase in job losses and falling business across several sectors of the economy. These will have impact on our business going forward in several ways such as increased cost of funds, reduced off take for mortgages, possible reduction in asset values and reduced margins. In addition the impending regulatory changes with regard to real estate financing may have further impact.

**CHAIRMAN'S REPORT**  
for the year ended 31 December 2008 (*continued*)

Bahraini dinars

In line with above changes in the market, we have prudently adjusted our financing criteria and going forward we will continuously monitor the criteria. We are also maintaining an active follow up on customer collections and as at end 2008 we do not have any customer exposure that require specific provision. However, considering that the year ahead will be challenging, we have on prudent basis allocated provision for collective allowance of BD 240K.

Our current mortgage portfolio (on approvals) has on average 70% finance to value ratio coverage and based on the stress test we carried out towards end 2008 we derive some comfort that downward price correction of up to 40% on an overall book basis could be withstood. We also take comfort that our mortgage underwriting is based on income earned by customers at the time of approving finance and repayments are mostly based on monthly amortization instead of financing based only on value of the security.

Our mortgage financing commitments as at end 2008 stands at approximately BD 8.5 million. We have been reviewing the project progress of the freehold developments with various developers. We will continue to meet our existing commitments and new business commitments by ensuring that we have sufficient liquidity. We are monitoring the liquidity position very closely and we are in discussion with several financial institutions including our shareholders for our funding requirements for 2009.

We will continue to maintain tight control on our costs and expect the cost-to-income ratio to fall from 58% in 2008 to sub 40% levels in 2009. We will also be enhancing our risk management in the year ahead.

In December 2008, we won the Best Islamic Mortgage Provider in the Middle East – IREF ME 2008 awards held in London. We believe that our success is due to the dedication and teamwork of our employees.

We continued our commitment to develop the talent in young Bahrainis by providing training and development. We contributed to growth in Islamic finance by contributing to the Waqf fund and providing training to Bahraini graduates. We also carried out our corporate social responsibility role by supporting several organizations in various ways.

I take this opportunity to thank the Government and the regulatory authorities for their support and cooperation. I also thank all of Sakana's stakeholders - our shareholders, our customers, our bankers, our suppliers and our dedicated employees.

I pray to Allah to guide us through these challenging times and enable us achieve prosperity.



**Abdul Hakim Khalil Al Mutawa**  
Chairman

4 February 2009

**REPORT OF THE SHARI'A ADVISOR  
for the year ended 31 December 2008**

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In the Name of Allah, the Beneficent, The Merciful.

*Praise be to Allah, the Lord of the Worlds and peace and blessing be upon our Prophet Mohammed and his scion companions.*

Assalam Alaikum Wa Rahmat Allah Wa Barakatoh,

It is my pleasure to present you the Shari'a Advisor report for this esteemed organization. In compliance with the letter of appointment, I have reviewed the company's business activities for the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2008, to form an opinion that the company has adhered to the Rules and Principles of Islamic Shari'a and also adhered to the decisions and contracts related to transactions and services. Furthermore, the accounts of the company have been reviewed and the contents of the Financial Statements have been discussed with management.

And whereas my responsibility is limited to form an independent Shari'a opinion based on review of the operations of the company, management is responsible for ensuring the company conducts its business in accordance with Shari'a Rules and Principles.

During the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2008, the company has executed transactions and contracts and I have reviewed and obtained all the information and explanations which I consider necessary for the purpose of Shari'a audit to give reasonable assurance that Sakana has not violated the Shari'a Rules and Principles.

In my opinion the contracts transactions, and dealings and resulting profits and losses confirm to the basis that had been approved by me in accordance with Shari'a Rules and Principles.

I thank the company's management for their commitment to adhere to their Shari'a Rules and Principles.

I pray to Allah the Almighty, to bless the company with more success and prosperity and support the growth of Islamic financial institutions to fulfill their role towards the developing and serving of the community.

Allah peace and blessing be upon you,

A handwritten signature in black ink, enclosed within a hand-drawn oval. The signature appears to be 'Osama' with a stylized flourish below it.

Osama Mohammed Bahar  
Shari'a Advisor

04 February 2009



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Sakana Holistic Housing Solutions BSC (c)  
Manama, Kingdom of Bahrain

4 February 2009

We have audited the accompanying financial statements of Sakana Holistic Housing Solutions BSC (c) ("the Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Respective responsibilities of the Board of Directors and auditors

These financial statements and the Company's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Board of Directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 principles 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 2008, the results of its operations, the changes in its shareholders' equity and the changes in its cash flows for the year then ended, in accordance with 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.

### Other regulatory matters

In addition, in our opinion, the Company has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, 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 having occurred during the year that might have had a material effect on the business of the Company or on its financial position as at 31 December 2008. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

**BALANCE SHEET**  
as at 31 December 2008

Bahraini dinars

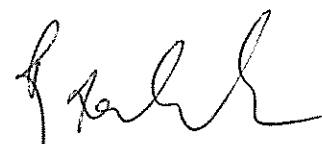
	Note	31 December 2008	31 December 2007
<b>ASSETS</b>			
Cash and cash equivalents	3	2,595,891	802,975
Development property	4	4,641,184	-
Assets acquired for leasing	5	21,911,758	11,527,627
Islamic financing assets	6	10,214,165	2,575,928
Investment property	7	-	1,161,320
Other assets	8	283,689	379,611
Fixed assets	9	250,323	307,233
<b>Total assets</b>		<b>39,897,010</b>	<b>16,754,694</b>
<b>LIABILITIES</b>			
Payables and accrued expenses	10	540,608	445,929
Islamic financing liabilities	11	18,831,206	3,867,381
<b>Total liabilities</b>		<b>19,371,814</b>	<b>4,313,310</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	12	20,000,000	12,500,000
Statutory reserve		52,520	-
Retained earnings/ (accumulated losses)		472,676	(58,616)
<b>Total shareholders' equity (page 7)</b>		<b>20,525,196</b>	<b>12,441,384</b>
<b>Total liabilities and shareholders' equity</b>		<b>39,897,010</b>	<b>16,754,694</b>



Abdul Hakim Khalil Al-Mutawa  
Chairman



Jamal Mohammed Hijres  
Vice Chairman



R. Lakshmanan  
Chief Executive Officer

The financial statements, which consist of pages 5 to 22, were approved by the directors on 4 February 2009.

**INCOME STATEMENT**

for the year ended 31 December 2008

Bahraini dinars

	Note	2008	2007
Gross Ijarah income		2,417,065	830,565
Depreciation on assets acquired for leasing		(1,008,338)	(483,311)
<b>Net lease income</b>		<b>1,408,727</b>	<b>347,254</b>
Fee income		206,062	208,025
Income from placements with financial institutions		99,436	74,827
Income from Islamic financing assets		628,430	64,275
Income from property consulting services		61,169	254,739
Gains on revaluation of investment property	7	214,680	206,731
Other income		14,074	18,751
<b>Total income</b>		<b>2,632,578</b>	<b>1,174,602</b>
Staff cost	13	605,095	399,544
Financing cost		673,224	106,805
Other operating expenses	14	331,470	277,129
Marketing and public relation expenses		116,718	219,867
Depreciation on fixed assets	9	82,259	70,902
Provision for collective impairment	16	240,000	-
<b>Total expenses</b>		<b>2,048,766</b>	<b>1,074,247</b>
<b>PROFIT FOR THE YEAR</b>		<b>583,812</b>	<b>100,355</b>

The financial statements consist of pages 5 to 22.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the year ended 31 December 2008**

Bahraini dinars

2008	Share Capital	Statutory reserve	Retained earnings/ (accumulated losses)	Total
At 1 January	12,500,000	-	(58,616)	12,441,384
Profit for the year	-	-	583,812	583,812
Share capital introduced during the year	7,500,000	-	-	7,500,000
Transfer to statutory reserve	-	52,520	(52,520)	-
<b>At 31 December</b>	<b>20,000,000</b>	<b>52,520</b>	<b>472,676</b>	<b>20,525,196</b>

2007	Share Capital	Statutory reserve	Retained earnings/ (accumulated losses)	Total
At 1 January	5,000,000	-	(158,971)	4,841,029
Profit for the year	-	-	100,355	100,355
Share capital introduced during the year	7,500,000	-	-	7,500,000
<b>At 31 December</b>	<b>12,500,000</b>	<b>-</b>	<b>(58,616)</b>	<b>12,441,384</b>

There are no recognised gains or losses in the current and prior year other than those included in the Income Statement.

The financial statements consist of pages 5 to 22.

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2008**

Bahraini dinars

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	583,812	100,355
Adjustments for:		
Depreciation on fixed assets	82,259	70,902
Depreciation on assets acquired for leasing	1,008,338	483,311
Income from placements with financial institutions	(99,436)	(74,827)
Loss on sale of fixed assets	75	-
Financing cost	673,224	106,805
Gain on revaluation	(214,680)	(206,731)
Provision for collective impairment	240,000	-
<b>Operating profit before working capital changes</b>	<b>2,273,592</b>	<b>479,815</b>
Changes in operating assets and liabilities:		
Increase in assets acquired for leasing	(11,557,469)	(11,756,346)
Increase in Islamic financing assets	(7,713,237)	(2,575,928)
Increase in development property	(3,265,184)	-
Decrease/ (increase) in other assets	95,922	(363,463)
Increase in payables and accrued expenses	94,679	280,300
<b>Cash flows from operating activities</b>	<b>(20,071,697)</b>	<b>(13,935,622)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(25,484)	(144,379)
Sale of fixed assets	60	-
Acquisition of investment property	-	(954,589)
Income from placements with financial institutions received	99,436	74,827
<b>Cash flows from investing activities</b>	<b>74,012</b>	<b>(1,024,141)</b>
<b>FINANCING ACTIVITIES</b>		
Capital introduced	7,500,000	7,500,000
Finance costs paid	(673,224)	(9,424)
Net proceeds of Islamic financing liabilities	14,963,825	3,770,000
<b>Cash flows from financing activities</b>	<b>21,790,601</b>	<b>11,260,576</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>1,792,916</b>	<b>(3,699,187)</b>
Cash and cash equivalents at the beginning of the year	802,975	4,502,162
<b>Cash and cash equivalents at 31 December (Note 3)</b>	<b>2,595,891</b>	<b>802,975</b>

The financial statements consist of pages 5 to 22.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

**1 INCORPORATION AND PRINCIPAL ACTIVITY**

Sakana Holistic Housing Solutions BSC (c) ("the Company") was incorporated on 27 November 2005 in the Kingdom of Bahrain under Commercial Registration No. 58795 as a 50:50 joint venture between BBK (formerly known as "Bank of Bahrain and Kuwait BSC") and Shamil Bank of Bahrain BSC. The Company operates under a license granted by the Central Bank of Bahrain ("CBB"). The Company operates through its Head Office and two customer service outlets in the Kingdom of Bahrain.

The principal activity of the Company is financing real estate in accordance with Islamic rules and principles. The Company commenced commercial operations on 3 December 2006.

The Company's activities are regulated by the Central Bank of Bahrain and supervised by a Religious Supervisory Advisor whose role has been defined by the Board of Directors.

**2 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these financial statements are set out below.

**(a) Statement of compliance**

The Company has been licensed by the Central Bank of Bahrain as a financing company that is required to follow Islamic Shari'a rules and principles and hence is required to comply with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. In line with the requirement of AAOIFI and the CBB guidelines, for matters for which no AAOIFI standards exist, the Company uses guidance from relevant International Financial Reporting Standard.

**(b) Basis of preparation**

The financial statements are presented in Bahraini Dinars, being the principal currency of the Company's operations. They are prepared on the historical cost basis, except for revaluation of investment property.

**(c) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and bank balances and short-term highly liquid investments with maturities of three months or less when acquired.

**(d) Assets acquired for leasing**

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at 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 indefinite life).

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

**(e) Islamic financing assets**

Islamic financing assets comprise shari'a compliant property financing provided by the Company. These include Forward Ijarah's for pre-construction financing, Musharaka and Murabaha financing which are stated at amortised cost less impairment allowances.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

2 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Islamic financing liabilities**

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

**(g) Investment property**

Investment property are properties held for the purposes of development for rental or capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in the income statement. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**(h) Development property**

Development property consist of lands being developed for sale in the ordinary course of business and costs incurred in bringing such land to its saleable condition. Development property is stated at cost less impairment if any until completion, following which it will be stated at the lower of cost and net realisable value.

**(i) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over their estimated useful lives of assets as follows:

Furniture and leasehold improvements	5 years
Computer and equipment	4 years
Vehicles	5 years

**(j) Placements with financial institutions**

Placements with financial institutions comprise of short-term mudaraba placements with banks which are carried at cost less impairment.

**(k) Impairment**

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

The Company considers evidence of impairment for Islamic financing assets and assets acquired for lease at both a specific asset and collective level. All individually significant Islamic financing assets and assets held for lease are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Islamic financing assets and assets held for leasing that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****(l) Revenue recognition**

Income from asset acquired for leasing (ijarah muntahia bittamleek) contracts are recognised proportionately over the lease term.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Income from property consulting services is recognised when earned and other fees and commission income are recognised as the related services are performed.

Income from Murabaha and forward ijarah contracts is recognised on a time-apportioned basis over the period of the contract.

Profit or losses in respect of the Company's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the Income Statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

**(m) 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.

**(n) Employees benefits****(i) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(ii) Post-employment benefits**

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Company are recognised as an expense in income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the balance sheet date.

These benefits qualify as "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

**(o) Transactions and balances in foreign currencies**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date, are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

2 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(p) **Statutory reserve**

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit, after adjustment for accumulated losses, be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

(q) **Segment reporting**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment) or in providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segment. The Company only operates in one primary segment of real estate and other segments are not material.

3 **CASH AND CASH EQUIVALENTS**

	31 December 2008	31 December 2007
Cash and Bank balances	1,595,891	802,975
Mudaraba placements with financial institutions	1,000,000	-
	<b>2,595,891</b>	<b>802,975</b>

4 **DEVELOPMENT PROPERTY**

	31 December 2008	31 December 2007
At 1 January	-	-
Additions during the year	3,265,184	-
Transfer from investment property (note 7)	1,376,000	-
<b>At 31 December</b>	<b>4,641,184</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

**5 ASSETS ACQUIRED FOR LEASING**

	Land	Properties	2008	2007
<b>Cost - Financing value</b>				
At 1 January	2,588,440	9,235,963	11,824,403	255,000
Additions	4,361,265	10,538,529	14,899,794	12,848,324
Disposal/ repayments	(1,360,045)	(2,325,293)	(3,685,338)	(1,278,921)
<b>As 31 December</b>	<b>5,589,660</b>	<b>17,449,199</b>	<b>23,038,859</b>	<b>11,824,403</b>
<b>Accumulated Depreciation</b>				
At 1 January	-	296,777	296,777	408
Charge for year	-	797,474	797,474	317,768
Disposal	-	(132,150)	(132,150)	(21,400)
<b>At 31 December</b>	<b>-</b>	<b>962,101</b>	<b>962,101</b>	<b>296,776</b>
Less: provision for collective impairment (note 17)	(41,777)	(123,223)	(165,000)	-
<b>At 31 December</b>	<b>5,547,883</b>	<b>16,363,875</b>	<b>21,911,758</b>	<b>11,527,627</b>

Assets acquired for leasing are leased under contracts that end up with the transfer of ownership of the leased asset to the lessee (Ijarah Muntahia Bittamleek). The lease contracts outstanding at 31 December 2008 have lease terms of up to 30 years.

**6 ISLAMIC FINANCING ASSETS**

	31 December 2008	31 December 2007
Gross murabaha financing	155,243	522,734
Less : Deferred income	(6,259)	(4,017)
	<b>148,984</b>	<b>518,717</b>
Musharaka financing	76,056	529,920
Forward Ijarah financing	10,064,125	1,527,291
	<b>10,289,165</b>	<b>2,575,928</b>
Impairment allowances (note 16)	(75,000)	-
	<b>10,214,165</b>	<b>2,575,928</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

**7 INVESTMENT PROPERTY**

	<b>31 December 2008</b>	<b>31 December 2007</b>
At 1 January	1,161,320	-
Additions during the year	-	954,589
Fair value gain	214,680	206,731
Transfer to development property (note 4)	(1,376,000)	-
At 31 December	-	1,161,320

Investment property represent plots of land acquired by the Company in the area of Busaiteen, Kingdom of Bahrain, for the purposes of development for rental or capital appreciation. During the last quarter of 2008, the Company decided to develop the property for sale in the ordinary course of business and accordingly such property has been transferred from investment property to development property at fair value as of the date of transfer. The properties were fair valued by independent property valuers based on open market prices on the date of transfer resulting in a fair value gain of BD 214,680.

**8 OTHER ASSETS**

	<b>31 December 2008</b>	<b>31 December 2007</b>
Accrued lease rentals	148,935	50,378
Fee income receivable	6,268	2,398
Income receivable from property consulting services	89,145	296,880
Deposits	1,600	1,600
Prepayments and other receivables	37,741	28,355
	<b>283,689</b>	<b>379,611</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2008

Bahraini dinars

## 9 FIXED ASSETS

	Furniture and lease hold improvements	Computer and other equipment	Vehicles	Total
<b>Cost</b>				
At 1 January 2008	193,324	164,153	27,352	384,829
Additions	15,645	9,839	-	25,484
Disposals	-	(260)	-	(260)
At 31 December 2008	208,969	173,732	27,352	410,053
<b>Depreciation</b>				
At 1 January 2008	40,568	29,123	7,905	77,596
Charge for the year	40,208	36,581	5,470	82,259
Disposals	-	(125)	-	(125)
At 31 December 2008	80,776	65,579	13,375	159,730
<b>Net book value at 31 December 2008</b>	<b>128,193</b>	<b>108,153</b>	<b>13,977</b>	<b>250,323</b>
Net book value at 31 December 2007	152,756	135,030	19,447	307,233

## 10 PAYABLES AND ACCRUED EXPENSES

	31 December 2008	31 December 2007
Employee accruals	202,031	131,681
Deferred arrangement fees	114,276	-
Other payables and accrued expenses	224,301	314,248
	<b>540,608</b>	<b>445,929</b>

## 11 ISLAMIC FINANCING LIABILITIES

	31 December 2008	31 December 2007
Gross murabaha financing	7,703,047	4,007,170
Less: Deferred financing costs	(177,938)	(139,789)
	<b>7,525,109</b>	<b>3,867,381</b>
Tawwaruq financing	11,796,434	-
Less: Deferred financing costs	(490,337)	-
	<b>11,306,097</b>	<b>-</b>
Total murabaha & tawwaruq financing	<b>18,831,206</b>	<b>3,867,381</b>

The Company has obtained a short-term financing facility of BD 3,770,000 from its shareholders, which is repayable within a period of 12 months ending September 2009.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

**12 SHARE CAPITAL****Authorised:**

20,000,000 (2007: 20,000,000) ordinary shares of BD 1 each

**Issued and fully paid up:**

20,000,000 (2007: 12,500,000) ordinary shares of BD 1 each

During the year, the Company increased its issued and paid-up share capital from BD 12,500,000 to BD 20,000,000, which was equally contributed by both shareholders. The increase in capital was approved by the shareholders in their extraordinary meeting dated 30 April 2008.

	31 December 2008	31 December 2007
	20,000,000	20,000,000
	20,000,000	12,500,000

**13 STAFF COST**

Salaries and related expenses  
Social insurance expenses

	2008	2007
	572,306	377,912
	32,789	21,632
	<b>605,095</b>	<b>399,544</b>

**14 OTHER OPERATING EXPENSES**

Premises costs  
Professional fees  
Shari'a advisory fees  
Board and shareholder meeting expenses  
IT related expenses  
Communication expenses  
Others

	2008	2007
	78,046	75,732
	64,807	21,070
	6,000	7,315
	29,184	28,250
	65,360	60,449
	47,680	50,159
	40,393	34,154
	<b>331,470</b>	<b>277,129</b>

**15 RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the shareholders and entities over which the Company and the shareholders exercise significant influence, directors and executive management of the Company.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

**15 RELATED PARTY TRANSACTIONS (continued)**

The related party balances and transactions during the year were as follows:

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Balance sheet</b>		
Cash and cash equivalents	1,304,806	802,956
Investment Property	-	9,357
Payables and accrued expenses	16,587	28,370
Islamic financing liabilities	3,978,544	3,867,381
	<b>2008</b>	<b>2007</b>
<b>Income statement</b>		
Income from placements with financial institutions	7,319	-
Staff cost	278,470	176,630
Board fees	22,400	20,800
Shari'a advisory fees	6,000	7,315
Other operating expenses	60,902	74,996
Financing cost	199,005	106,805

**16 PROVISION FOR COLLECTIVE IMPAIRMENT**

	<b>2008</b>	<b>2007</b>
Assets acquired for leasing	165,000	-
Islamic financing assets	75,000	-
	<b>240,000</b>	<b>-</b>

**17 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.

**18 ZAKAH**

Zakah is directly borne by the owners. Zakah payable by the owners 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 and notified to the owners annually. Zakah payable by the owners for the year ended 31 December 2008 was 3 fils (2007: 2 fils) for every share held.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

**19 SOCIAL RESPONSIBILITY**

The Company discharges its social responsibilities through donations to charitable causes and organisations.

**20 COMMITMENTS**

The Company had the following commitments as at 31 December 2008:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Commitments to finance	5,346,015	2,050,528

The commitments to finance represent funding commitments arising from partial draw downs of the approved financing amounts. The Company has also approved commitments amounting to BD 3,195,958 as at 31 December 2008 (2007: BD 11,757,541) which are yet to be drawn down by the customers. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being exercised, the total contract amounts do not necessarily represent future cash flow requirements.

**21 CONCENTRATION OF ASSETS AND LIABILITIES***Industry sector*

The Company's assets acquired for leasing, Islamic financing assets and Development property have exposure to the real estate sector. Bank balances 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

**22 MATURITY PROFILE**

Maturity profile has been presented to indicate the gross nominal contractual cash flows to be paid/ received by the Company. In cases where the timing of cash flows are not contractually determined, the timing of cash flows has been estimated by the management.

**2008**

	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Gross nominal cash flows	Carrying values
<b>Assets</b>							
Cash and cash equivalents	2,595,891	-	-	-	-	2,595,891	2,595,891
Development property	-	-	-	4,641,184	-	4,641,184	4,641,184
Assets acquired for leasing	975,899	952,043	1,739,015	6,560,789	32,318,325	42,546,071	21,911,758
Islamic financing assets	2,637,745	2,005,951	6,245,218	22,062	-	10,910,976	10,214,165
Other assets	264,371	7,404	5,904	4,684	1,326	283,689	283,689
Fixed assets	-	-	-	-	250,323	250,323	250,323
<b>Total assets</b>	<b>6,473,906</b>	<b>2,965,398</b>	<b>7,990,137</b>	<b>11,228,719</b>	<b>32,569,974</b>	<b>61,228,134</b>	<b>39,897,010</b>
<b>Liabilities</b>							
Payables and accrued expenses	281,581	74,738	82,034	34,215	68,040	540,608	540,608
Islamic financing liabilities	3,777,576	5,235,110	7,281,482	3,205,313	-	19,499,481	18,831,206
<b>Total liabilities</b>	<b>4,059,157</b>	<b>5,309,848</b>	<b>7,363,516</b>	<b>3,239,528</b>	<b>68,040</b>	<b>20,040,089</b>	<b>19,371,814</b>

**2007**

	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Gross nominal cash flows	Carrying values
<b>Assets</b>							
Cash and cash equivalents	802,975	-	-	-	-	802,975	802,975
Assets acquired for leasing	435,732	441,590	877,322	3,343,426	18,912,546	24,010,616	11,527,627
Islamic financing assets	1,489,746	553,277	583,017	358,574	-	2,984,614	2,575,928
Investment property	-	-	-	1,161,320	-	1,161,320	1,161,320
Other assets	285,724	69,162	24,725	-	-	379,611	379,611
Fixed assets	-	-	-	-	307,233	307,233	307,233
<b>Total assets</b>	<b>3,014,177</b>	<b>1,064,029</b>	<b>1,485,064</b>	<b>4,863,320</b>	<b>19,219,779</b>	<b>29,646,369</b>	<b>16,754,694</b>
<b>Liabilities</b>							
Payables and accrued expenses	394,913	9,300	34,750	-	6,966	445,929	445,929
Islamic financing liabilities	-	1,064,595	2,942,575	-	-	4,007,170	3,867,381
<b>Total liabilities</b>	<b>394,913</b>	<b>1,073,895</b>	<b>2,977,325</b>	<b>-</b>	<b>6,966</b>	<b>4,453,099</b>	<b>4,313,310</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

**23 RISK MANAGEMENT**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established risk management policies and procedures to manage risk arising from financial assets. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Audit Committee is responsible for monitoring compliance with the Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Company's exposure to risks and its approach to managing these risks are discussed below.

**a) Credit risk**

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and cause the other party to incur a financial loss.

The Company's maximum exposure to credit risk at 31 December 2008 was as follows:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Cash and cash equivalents	2,595,891	802,975
Assets acquired for leasing	21,911,758	11,527,627
Islamic financing assets	10,214,165	2,575,928
Other assets	283,689	379,611
<b>Maximum exposure to credit risk</b>	<b>35,005,503</b>	<b>15,286,141</b>

The Company's credit risk arises mainly from the Islamic financing assets and receivables of current and future Ijarah rentals. In case of Ijarah rentals and Islamic financing assets the Company has well defined policies for managing credit risks that 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 type of customers and the individual real estate projects that are being financed.

At 31 December 2008 BD 18,956 (2007: Nil) of the assets acquired for leasing and Islamic financing assets were past due. The management does not consider these to be impaired and therefore the Company did not carry any specific impairment provision.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

23 **RISK MANAGEMENT** (continued)

The Company holds collateral against its lease (Ijarah) financing and Islamic financing assets in the form of possession of legal title and/ or mortgage/ pledge over the property being financed. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and updated at periodic intervals.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below.

	31 December 2008		31 December 2007	
	Carrying value	Collateral value	Carrying value	Collateral value
Assets acquired for leasing	21,911,758	35,201,496	11,527,627	16,835,991
Islamic financing assets	10,214,165	20,266,431	2,575,928	6,014,460

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 manages its concentration risk by establishing developer and customer-wise concentration limits (refer note 21).

**b) Currency risk**

The Company is not exposed to currency risks as all of the transactions are either in Bahraini dinars or in currencies which are pegged to the US dollars to which the Bahraini dinar is also pegged.

**c) Liquidity risk**

Liquidity risk is defined as the risk that the Company will not have funds to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrade which may cause certain sources of funding to cease immediately.

The Company uses a maturity ladder approach for managing and monitoring the liquidity risk. The maturity profile of assets and liabilities is set out in note 22. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without risking damage to the Company's reputation. Currently, the Company is in the process of arranging additional lines of funding to expand its operating activities.

**d) Profit rate risk**

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 the assets acquired for leasing and Islamic financing assets. The Company's exposure to profit rate risk is considered to be limited due to the fact that the terms of repayment for assets acquired on lease and the Islamic financing assets are such that they can be re-priced periodically. The Company through the terms of its lease agreements and Islamic financing contracts, has the ability to pass on any significant change in profit rates to its customers.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

23 *RISK MANAGEMENT (continued)*

The average profits rates earned/ charged on financial assets and liabilities were as follows:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Placements with financial institutions	5.00%	5.33%
Assets acquired for leasing	9.20%	9.04%
Islamic financing assets	10.40%	8.89%
Islamic financing liabilities	5.65%	6.45%

**e) Fair values of financial instruments**

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. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair value of the other financial assets and liabilities for the Company are not materially different from their carrying values.

24 **Capital Management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as the return on equity, and the level of dividends.

There were no changes in the Company's approach to capital management during the period.

The Company is not subject to externally imposed capital requirements.

**SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

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**THE FOLLOWING UNAUDITED PROFORMA BALANCE SHEET AND INCOME  
STATEMENT AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS DO NOT FORM  
PART OF THE FINANCIAL STATEMENTS**

**SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2008

Bahraini dinars

**Unaudited proforma balance sheet and income statement as per IFRS**

**(a) BALANCE SHEET**

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>ASSETS</b>		
Cash and cash equivalents	2,595,891	802,975
Development property	4,641,184	-
Loans and advances	32,483,773	14,293,785
Investment property	-	1,161,320
Other assets	283,689	379,611
Fixed assets	250,323	307,233
<b>Total assets</b>	<b>40,254,860</b>	<b>16,944,924</b>
<b>LIABILITIES</b>		
Payables and accrued expenses	540,608	445,929
Financing	18,831,206	3,867,381
<b>Total liabilities</b>	<b>19,371,814</b>	<b>4,313,310</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	20,000,000	12,500,000
Statutory reserve	88,304	13,161
Retained earnings	794,742	118,453
<b>Total shareholders' equity</b>	<b>20,883,046</b>	<b>12,631,614</b>
<b>Total liabilities and shareholders' equity</b>	<b>40,254,860</b>	<b>16,944,924</b>

**SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

Bahraini dinars

Unaudited proforma balance sheet and income statement as per IFRS

(b) **INCOME STATEMENT**

	2008	2007
Financing income	2,204,778	601,447
Fee income	206,062	208,025
Income from placements with financial institutions	99,436	74,827
Income from property consulting services	61,169	254,739
Gains on revaluation of investment property	214,680	206,731
Other income	14,074	18,751
<b>Total income</b>	<b>2,800,199</b>	<b>1,364,520</b>
Staff cost	605,095	399,544
Financing cost	673,224	106,805
Other operating expenses	331,470	277,129
Marketing and public relation expenses	116,718	219,867
Depreciation on fixed assets	82,259	70,902
Provision for collective impairment	240,000	-
<b>Total expenses</b>	<b>2,048,766</b>	<b>1,074,247</b>
<b>NET INCOME FOR THE YEAR</b>	<b>751,433</b>	<b>290,273</b>